

APPENDIX A
FINDINGS AND RECOMMENDATIONS

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Our FY 1997 financial statement audit identified reportable conditions in 9 areas and made 40 recommendations. Based upon management's response to our draft report, 13 recommendations are resolved and 27 are unresolved. As part of our audit, we reviewed the status of prior years' reportable conditions and recommendations. A total of 48 prior years' recommendations remain open, of which 18 are unresolved. The Department has made great strides this year in resolving and closing prior year recommendations. 28 prior year recommendations have been closed, including 6 which were previously unresolved. In addition, 14 previously unresolved recommendations have been resolved. Of the 40 new recommendations made in FY 1997, 19 pertain to noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA), and represent new recommendations concerning the following previously reported areas: Wage and Hour's Back Wage and Civil Monetary Penalties systems, ETA's debt management subsidiary system (Rbase), MSHA's and OSHA's penalty tracking systems and Job Corps' accounting for real and personal property.

The following chart summarizes the open recommendations by area of concern and the year first identified:

AUDIT AREA	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	Total Open
Cross-Cutting Issues:							
EDP Controls				2	2	6	10
Accounting for Grants		1		1	2	7	11
Fines and Penalties					3	1	4
Property and Equipment				4	1	5	10
Accounts Receivable					1		1
Working Capital Fund Cost Allocation	1						1
Performance Measures	1						1
Program Specific Issues:							
Wage and Hour's Back Wage Systems		2		1	1	7	11
Wage and Hour CMP Systems		2				4	6
Accounting for ETA Debt Management			1	5		8	14
FECA Program			2	1	8		11
Longshore and Harbor Worker's Compensation Act Special Fund						1	1
Black Lung Disability Trust Fund				3			3
Unemployment Trust Fund			2			1	3
Trust Fund Administrative Assessments	1						1
Total Open Recommendations	3	5	5	17	18	40	88

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1. Wage and Hour's Back Wage Systems

Current Year Findings and Recommendations

a. FFMIA Compliance

The *Federal Financial Management Improvement Act of 1996* (FFMIA) was effective beginning in FY 1997. FFMIA requires that each agency implement and maintain financial management systems that comply substantially with (1) Federal financial management systems requirements as outlined in OMB Circular A-127 and the Joint Financial Management Improvement Program (JFMIP) *Core Financial System Requirements*, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (SGL). The back wage systems are not in substantial compliance with FFMIA in that the systems do not process financial information effectively and efficiently and do not provide complete, timely, reliable and consistent information.

Federal Financial Management Systems

OMB Circular A-127 (Revised), Financial Management Systems and JFMIP, require that financial management systems be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public. According to JFMIP, this includes the ability to provide a complete audit trail to trace transactions from source documents, or original input through the system and that transactions are handled consistently and controlled properly to provide reasonable assurance that the recording, processing, and reporting of financial data are properly performed and that the completeness and accuracy of authorized transactions are ensured. The back wage systems do not meet these requirements for the following reasons:

1. Our audit of the BCDS system identified that transactions were not recorded accurately, timely and were not complete. Of the 299 back wage cases selected for testing, 119 or 39 percent were either misstated or the validity of the case could not be determined.
2. Cash information recorded in BTS and DOLAR\$ does not agree to the cash information recorded in the BCDS system (used as the accounts receivable and accounts payable subsidiary ledger for DOLAR\$).
3. The BTS system (used to determine total cash receipts and disbursements recorded in DOLAR\$) does not provide transaction level detail. Detail is recorded in BCDS; however, it is tracked by case and is not readily available in a format which could be used to support the entries posted to DOLAR\$. In addition, as indicated above, cash information recorded in the two systems does not agree.
4. The general ledger entries generated from the BCDS system to record accounts receivable and payable (cash balances pending disbursement) are recorded manually at year end only.
5. The Back Wage system does not provide proper cutoff controls. Information entered into the system can be inappropriately back dated, allowing subsequent periods to reflect significant changes in the ending balances for previous accounting periods. This is true even after the close of a fiscal year. Consequently, the subsidiary ledger

can change after the general ledger has been closed. While JFMIP requirements allow for overlapping of transactions in order to facilitate the recording of transactions in the proper accounting period, they restrict this overlapping to a limited duration of time (a few days). BCDS allows back dating of transactions for an unlimited period of time.

6. The BCDS system is not designed to close fiscal periods. Certain reports provided by the BCDS system cannot be generated as of a particular fiscal period, rather, they can only be generated as of the print date. In addition, other BCDS reports such as the Aging Report do not agree with the Accounts Receivable Report for the same period. We noticed cases in the Aging Report that were not in the Accounts Receivable Report and cases in the Accounts Receivable Report that were not in the Aging Report. Therefore, the Aging Report is not reliable or useful for its intended purpose.
7. The BCDS system does not have an appropriate method by which to edit transactions recorded in error. As a result, the back wage staff have developed various means to attempt corrections such as setting up duplicate case files, recording negative cash receipts, etc. These “corrections” often result in erroneous account balances.

Federal Accounting Standards

FFMIA requires that the financial management system produce financial information that is in compliance with financial accounting standards which are used in the preparation of financial statements. Statement of Federal Financial Accounting Standards No. 7 states that a claim becomes legally enforceable and measurable upon expiration of the date through which an individual may contest a court summons. Current practices followed by the back wage regional offices result in back wage accounts which are not complete or in accordance with these standards, as follows:

1. In some cases, accounts receivable are not recorded at the time the claim becomes enforceable (expiration of date to contest or date of final court order) but are recorded only upon receipt of the first payment, which may be several months from the date of the enforceable claim. It is possible that the receivable will never be recorded and collection efforts initiated if the employer does not send a payment.
2. In some installment cases, agreed-to-pay amounts are recorded only for the amount of actual cash received from the employer. A receivable is not recorded for the remaining amount due from the employer.

United States Government Standard General Ledger

FFMIA requires that the financial management system produce financial information that is in compliance with the U.S. Government Standard General Ledger (SGL) at the transaction level. The back wage systems do not substantially meet these requirements, as follows:

1. The system is not maintained on an accrual basis, in that certain amounts owed by employers are omitted from the system or are only partially recorded.
2. The system does not function as an adequate subsidiary to the DOLAR\$ general ledger control accounts. The detail maintained in the BCDS does not agree with the cash entries posted to the general ledger.

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3. The case balances by employer (cash balances pending distribution) as recorded in BCDS do not agree with the cash balances recorded in DOLAR\$ (which agrees to the Treasury balance).
4. Back wage transactions posted in DOLAR\$ cannot be traced back through the feeder systems (BTS and BCDS) to the detailed source record. The BTS system used to determine total cash receipts and disbursements recorded in DOLAR\$ does not provide transaction level detail. The detail is recorded in BCDS; however, as indicated above, cash information recorded in the two systems does not agree, and the detail is summarized at the case level.

Recommendations

The Acting Chief Financial Officer and the Assistant Secretary for Employment Standards should provide a recommended remedial action plan and the time frames to implement such actions, and should ensure that a corrective action plan is developed and implemented to meet the FFMIA requirements, as follows:

Federal Financial Management Systems

1. **Implement properly designed internal controls which will provide management with reasonable assurance that the back wage financial management systems are operating effectively.**

Management's Response

The Wage and Hour Division is undertaking a redesign of the Back Wage Collection and Disbursement System (BCDS) to update the system and to ensure that it meets all financial management and accounting standards. The requirements analysis phase of the redesign will be completed in April 1998. At that time, Wage and Hour will determine the amount of time needed to develop and validate the software, and implement the new system. Wage and Hour will ensure that the redesigned BCDS will include properly designed internal controls and specific operating procedures to ensure its effective operation.

OIG's Conclusion

Management intends to redesign the BCDS system in order to meet applicable financial management and accounting standards. This recommendation remains **unresolved** pending receipt and review of management's specific plans for system design and implementation, which include time frames and milestones for completion. The FFMIA requires that remediation plans bring the agency's financial management systems into substantial compliance within a 3 year period from the date that noncompliance was determined.

2. The back wage financial management systems should include the following features:

- **A proper cutoff of accounting periods, with a limited period of time for correcting and recording transactions subsequent to the end of the period.**
- **The ability (and requirement) to close accounting periods.**
- **The ability to generate subsidiary reports using the same accounting cutoff and frequency as the general ledger control accounts, and controls which will ensure that totals on the subsidiary reports agree to totals posted to the general ledger.**
- **Controls to ensure that recorded information is accurate, reliable, timely and complete.**
- **The ability to edit, track and correct transactions, with proper authorization.**

Management's Response

The redesigned BCDS will include all of the features listed above. All findings and recommendations of this and previous audits have been provided to the contractor team redesigning BCDS. In addition Wage-Hour and ESA/OMAP will work closely with the OIG Office of Audit in the National Office and the Atlanta OIG Audit staff to ensure that the system meets all applicable standards.

OIG's Conclusion

This recommendation remains **unresolved** pending receipt and review of management's plans for system design and implementation, which include time frames and milestones for completion.

Financial Accounting Standards

3. The back wage BCDS system should record the full amount due from an employer on the date the claim becomes enforceable, in accordance with SFFAS.

Management's Response

By March 31, 1998 Wage and Hour Regional Administrators (RAs) will be issued further written guidance and procedures on the proper management and administration of the BCDS. These procedures will include specific instructions that the full receivable amount must be entered into BCDS when the claim becomes enforceable, and that systems shall be put in place for the District Offices and the Office of the Solicitor to provide copies of final settlement agreements including back wage summary sheets as soon as these documents are executed.

OIG's Conclusion

This recommendation is **resolved and open** based on management's concurrence and the specific actions discussed in the response. Closure is dependent on the OIG's review of the written instructions and the outcome of the FY 1998 audit.

U.S. Government Standard General Ledger

4. The back wage systems should be maintained on a full accrual basis.

Management's Response

Once it is implemented, the redesigned BCDS will be maintained on a full accrual basis.

OIG's Conclusion

This recommendation remains **unresolved** pending receipt and review of management's plans for system design and implementation, which include time frames and milestones for completion.

5. The back wage subsidiary systems used to support DOLAR\$ general ledger accounts should:

- **Meet the requirements listed in recommendation 2. above.**
- **Provide a complete and accurate report of the items comprising the ending balance in the general ledger accounts.**
- **Provide a complete and accurate report of the source transactions which comprise the general ledger balance, thus providing an audit trail.**

Management's Response

Once it is implemented, the redesigned BCDS will meet all of the requirements listed above.

OIG's Conclusion

This recommendation remains **unresolved** pending receipt and review of management's plans for system design and implementation, which include time frames and milestones for completion.

b. Back Wage Accounts

Back wages are tracked by the national Back Wage Tracking System (BTS) and the regional Back Wage Collection and Disbursement System (BCDS). Our audits of these systems have disclosed differences in the amounts recorded for back wage cash activity, such as the amounts recorded for cash collections remitted by employers. The cash transactions recorded by the regional offices in BCDS are not reconciled to lock box (bank) or BTS reports. As a result, the cash recorded in the BCDS system does not agree to cash recorded in BTS and DOLAR\$, and does not reflect the correct cash balances pending disbursement to employees. Our audits have also determined that other information input into the BCDS system is inaccurate and

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incomplete, and the system does not accurately reflect the amounts receivable from employers on a case-by-case basis.

Our FY 1997 audit procedures included tests of sample cases recorded in the BCDS system. These tests detected misstatements in both the accounts receivable and cash balances caused primarily by incorrect or incomplete data input into BCDS. Of the 299 cases selected, 119 or 39.8 percent had one or more errors. Specifically, we identified:

- 12 cases where Civil Monetary Penalties (CMP) collections and assessments were erroneously recorded in the BCDS system, causing misstatements of the accounts receivable and cash balances of \$8,074 and \$138,109, respectively. BCDS should include back wages only. CMPs are recorded in a separate system.
- 19 cases where the agreed-to-pay amounts were recorded for the wrong amount, or were not recorded, causing misstatements of the accounts receivable balance of \$341,435. This situation was partially caused by regional office policy which, in certain cases, requires input of agreed-to-pay amounts only upon receipt of a check from the employer.
- 6 cases set up in BCDS which represented duplicate cases, causing misstatements of the accounts receivable and cash balances of \$225,609 and \$32,360 respectively.
- 34 cases where cash receipts or disbursements were not recorded timely, or were not correctly recorded in BCDS, causing misstatements of the accounts receivable and cash balances of \$102,194 and \$452,591, respectively. We attribute delayed posting of back wage transactions to the fact that the system allows for back dating of transactions and does not have cutoff controls. Information entered into the system can be back dated, allowing subsequent periods to reflect significant changes in the ending balances for previous accounting periods. This is true even after the close of a fiscal year. Consequently, the subsidiary ledger can change after the general ledger has been closed. While a system should allow for overlapping of transactions in order to facilitate the recording of transactions in the proper accounting period, this overlapping should be for a limited duration of time (a few days). BCDS allows back dating of transactions for an unlimited period of time.
- 15 cases where cash receipts recorded in BCDS were not supported by a lock box deposit, causing misstatements of the accounts receivable and cash balances of \$60,851 and \$208,215, respectively.
- 2 cases where the cash transferred to the U.S. Treasury exceeded the actual cash balance on hand, totaling \$148,884. System controls should be in place to prevent such overpayments.
- 3 invalid cases recorded in BCDS which misstated the accounts receivable balance by \$36,833 and the cash balance by \$1,261,344.
- 31 cases where the regional offices were unable to locate the case files and the validity of the case could not be determined. These cases had accounts receivable and cash balances of \$370,195 and \$475,908, respectively.

From these test results, we conclude that the regional offices do not maintain sufficient controls over information recorded in the BCDS system, and that certain policies and practices

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exercised by the regional offices preclude the use of this system as a reliable subsidiary for back wages.

Recommendations

We recommend that the Acting Chief Financial Officer and the Assistant Secretary for Employment Standards:

- 1. Require the Wage and Hour Division (WHD) to improve internal controls over the operation of BCDS as follows:**
 - Intensify the existing case file review by issuing more specific instructions to reviewers and requiring follow-up procedures to ensure that such reviews are effective and performed on a timely basis. Specifically, case files should be periodically reviewed to verify that the agreed-to-pay amount, cash receipts and cash disbursements activities are accurately recorded in BCDS.**
 - Improve supervision of back wage staff and hold appropriate managers accountable for improving the reliability of information recorded in BCDS.**
 - Insist that regional offices adhere to National Office policy.**

Management's Response

The Wage and Hour Division will continue to emphasize to RAs and Regional Office staff that they are personally responsible for the reliability and accuracy of the BCDS. Since the issuance of the 1996 report, the Acting Wage Hour administrator has discussed proper administration of BCDS in numerous conference calls and Executive Team meetings. He has encouraged the RAs to hire additional staff if necessary to administer BCDS. By March 31, 1998 Wage and Hour Regional Administrators (RAs) will be issued further written guidance and procedures on the proper management and administration of the BCDS, including the actions listed above.

OIG's Conclusion

While management plans to issue guidance in regards to this recommendation, this recommendation remains **unresolved** pending receipt and review of specific plans for corrective action.

- 2. Develop and implement effective internal controls which will prevent cash disbursements in excess of the available cash balance.**

Management's Response

Wage Hour believes that current operating procedures should prevent case disbursements in excess of the available cash balance. However, existing controls will be reviewed and revised if necessary to ensure proper disbursements. Such controls will also be included in the redesigned BCDS.

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While management appears to agree with this recommendation, this recommendation is **unresolved** pending receipt of management's review and proposed corrective actions and the outcome of the FY 1998 audit.

Additional recommendations pertaining to the design and operation of the back wage accounting systems are addressed in the FFMIA finding described above.

Status of Prior Year Findings and Recommendations

In our FY 1993 audit (OIG Report No. 12-94-012-07-001) we recommended the following:

- *Differences between the back wage regional (BCDS) and national (BTS) office systems should be reconciled and either or both systems should be adjusted accordingly so that complete, accurate, and documented balances by employer agree with the related control accounts in DOLAR\$.*

In response to this recommendation, management indicated that the need for reconciliation would be reemphasized to the regional offices, and that existing reconciliation procedures would be recodified. System balances would then be adjusted to bring the BTS and BCDS systems into agreement. On April 9, 1997, the National Office issued a memorandum to the Wage and Hour Division (WHD) regional administrators requesting that all staff be reminded of the requirements to reconcile BCDS cash activity. The revised reconciliation procedures have not been issued.

Our FY 1997 audit disclosed that the regional offices made no efforts to reconcile cash activity recorded in BCDS with that recorded by the National Office in BTS (and DOLAR\$). The two systems do not reconcile and do not provide a sufficient subsidiary record of the cash, accounts receivable or accounts payable (cash balances pending disbursement to employees) recorded in DOLAR\$.

This recommendation remains **unresolved**.

Management's Response

Wage-Hour has determined that all Regional Offices have a process to reconcile differences between BTS and BCDS. It appears that each Region takes a slightly different approach to reconciliation and there is not a single set of operating procedures. In addition Wage-Hour has not required a monthly report from the Regions documenting that the reconciliation has been completed. Wage-Hour and ESA/OMAP are in the process of developing specific written instructions for Regions to follow in monthly reconciliation of BCDS and BTS. These instructions will also include a reporting requirement so that Wage-Hour and ESA/OMAP can ensure this activity is being performed consistently and on a timely basis. These procedures will be issued and implemented by March 31, 1998.

OIG's Conclusion

While we concur with management's plan to develop specific reconciliation procedures, we disagree that the Regional Offices have existing processes to reconcile BTS and BCDS. Our audits continually disclose that no reconciliations are performed, and that the Regional Offices have little or no knowledge of the information input into BTS at the National Office.

This recommendation is **unresolved** pending receipt and review of specific reconciliation procedures once developed by WHD and the outcome of the FY 1998 audit.

- ***Procedures should be developed and implemented to ensure that the CMP system and Back Wage Tracking System (BTS) remain up-to-date and in agreement with the control accounts in DOLAR\$.***

With respect to back wages, WHD has stated that it was engaged in efforts to verify BCDS account balances, reconcile the BTS and BCDS systems, and define automated linkages between BCDS and DOLAR\$ in order to ensure that summary level control accounts are in agreement with BCDS's detail account data. Management anticipated that these actions would be completed in FY 1997.

Our FY 1997 audit disclosed that little progress has been made towards resolving this recommendation. We noted that no actions were taken to reconcile BCDS activity with that recorded in BTS, and our tests of BCDS account balances disclosed high error rates similar to those reported in previous audits (39 percent). The amounts recorded in BCDS do not interface with or otherwise agree to the amounts recorded in DOLAR\$.

It is our understanding that management has since decided to redesign existing systems. In a memorandum dated October 17, 1997, WHD indicated that a determination was made to redesign BCDS in order to develop a system which will meet Federal accounting requirements and provide automated linkages to DOLAR\$. It is anticipated that a new system will be implemented in FY 1999.

This recommendation remains **unresolved** with respect to the back wage systems. The CMP system is addressed in a separate section of this report.

Management's Response

As noted in previous responses, Wage-Hour and ESA/OMAP are taking immediate steps to improve the accuracy of BCDS and to establish and implement procedures for reconciliation of BTS and BCDS. Once these steps are completed and Wage-Hour and ESA/OMAP are confident in the accuracy of the data in BCDS and BTS, they will proceed with the interface with DOLAR\$. It is expected that testing of the DOLAR\$ interface will begin in FY 1998 and will be completed in FY 1999.

OIG's Conclusion

This recommendation is **unresolved** pending the OIG's review of a specific corrective action plan, inclusive of time frames and milestones for completion, as well as the written reconciliation procedures previously discussed.

In our FY 1995 audit (OIG Report No. 12-96-007-13-001) we recommended the following:

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- *We recommended that the Chief Financial Officer and the Assistant Secretary for Employment Standards ensure that appropriate steps are taken to ensure that the Department complies with the provisions of the various labor standards laws which require remittance of unclaimed back wage receipts to the U.S. Treasury after a specified time.*

During FY 1997, the WHD made substantial progress in closing expired cases and transferring the related cash balances to the U.S. Treasury. The total value of expired cases as of the end of the year was approximately \$4.3 million, versus \$10.3 million as of December, 1996. The remaining balances are primarily related to the San Francisco (\$2.7 million) and Philadelphia (\$.8 million) regions.

Based on these facts, this recommendation is **resolved and open**. Closure is dependent on compliance in the San Francisco and Philadelphia regions.

Management's Response

Wage-Hour will continue to provide the Regions with monthly lists of cases that should be closed and the money transferred to the U.S. Treasury and to emphasize this activity in meetings and conference calls. The Philadelphia Region has made the transferring of funds to the U.S. Treasury a priority, and have committed to transferring 75 -80% of the \$5.8 million in the next six months. In the past two years, the San Francisco Region has reduced its case total from over 3,000 to 621. San Francisco continues to work on improving internal controls and has developed a strategic plan for FY 1998 that includes training staff on proper BCDS procedures including the reconciliation process. To ensure that these two Regions achieve compliance, a memorandum will be issued by the Acting Administrator no later than March 31, 1998 requesting the Acting Regional Administrators in these two Regions to submit a corrective action plan to achieve compliance by the end of FY 1998.

OIG's Conclusion

This recommendation is **resolved and open**. Closure is dependent on receipt and review of the corrective action plan and the outcome in the FY 1998 audit.

In our FY 1996 report (OIG Report No. 12-97-005-13-001), we made the following recommendation:

- *We recommended that the Chief Financial Officer and the Assistant Secretary for Employment Standards require regional offices to perform routine reconciliations of the cash receipt information input into BCDS to ensure that any input errors or missed items are detected on a timely basis. Specifically, actual postings recorded in BCDS should be reconciled to batch totals, and to amounts reflected in the lock box receipt reports.*

On April 9, 1997, the National Office issued a memorandum to the WHD regional administrators requesting that all staff be reminded of the requirements to reconcile BCDS cash activity on a monthly basis.

This action did not improve the BCDS system. Our FY 1997 audit disclosed that the regional offices did not reconcile actual postings recorded in BCDS to batch totals or to amounts reflected in lock box reports, nor did they exercise sufficient alternative procedures to detect input errors or missed items. Tests of the BCDS cash balances disclosed a 39 percent error

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rate, much of which was caused by input errors or missed items. This recommendation remains **unresolved**.

Management's Response

Wage-Hour has determined that all Regional Offices have a process to reconcile differences between BTS and BCDS. It appears that each Region takes a slightly different approach to reconciliation and there is not a single set of operating procedures. In addition Wage-Hour has not required a monthly report from the Regions documenting that the reconciliation has been completed. Wage-Hour and ESA/OMAP are in the process of developing specific written instructions for Regions to follow in monthly reconciliation of BCDS and BTS. These instructions will also include a reporting requirement so that Wage-Hour and ESA/OMAP can ensure this activity is being performed consistently and on a timely basis. These procedures will be issued and implemented by March 31, 1998.

OIG's Conclusion

We disagree that a process exists for reconciling the BTS and BCDS systems, or for reconciling BCDS information with lock box reports or batch totals. As previously discussed, our audits have continually disclosed that reconciliations are not performed by the Regional Offices. This recommendation remains **unresolved** pending the OIG's review of specific reconciliation procedures, as well as the outcome in subsequent audits.

2. Wage and Hour's Civil Monetary Penalties System

Current Year Findings and Recommendations

a. FFMIA Compliance

The *Federal Financial Management Improvement Act of 1996* (FFMIA) was effective beginning in FY 1997. FFMIA requires that each agency implement and maintain financial management systems that comply substantially with (1) Federal financial management systems requirements as outlined in OMB Circular A-127 and the Joint Financial Management Improvement Program (JFMIP) *Core Financial System Requirements*, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (SGL). The CMP system used to record CMP accounts is not in substantial compliance with FFMIA in that the system does not provide complete, timely, reliable and consistent information, and does not contain all of the necessary controls of a subsidiary system.

Federal Financial Management Systems

OMB Circular A-127 (Revised), Financial Management Systems and JFMIP, require that financial management systems be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public. According to JFMIP, this includes the ability to provide a complete audit trail to trace transactions from source documents, or original input through the system and that transactions are handled consistently and controlled properly to provide reasonable assurance that the recording, processing, and reporting of financial data are properly performed and that the completeness and accuracy of authorized transactions are ensured. The CMP system does not meet these requirements for the following reasons:

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1. Our audit of the CMP system identified that transactions were not recorded accurately, timely and were not complete. Of the 159 CMP cases selected for testing, 94 or 59 percent were either misstated or were not valid CMP receivables. These errors misstated the CMP receivable by \$1.7 million, or 36 percent of the \$4.6 million accounts receivable balance recorded at September 30, 1997.
2. Cash receipts recorded in the CMP system are not reconciled to the cash receipts recorded in the Federal Reserve Bank, or those recorded in DOLAR\$ general ledger accounts.
3. The system used to determine total cash receipts recorded in DOLAR\$ does not provide transaction level detail. Detail is recorded in CMP; however, as indicated above, cash information recorded in the two systems does not agree and the CMP system summarizes data at the case level.
4. The general ledger entries generated from the CMP system to record accounts receivable are recorded manually at year end only.
5. The CMP system does not provide proper cutoff controls. Information entered into the system can be inappropriately back dated, allowing subsequent periods to reflect significant changes in the ending balances for previous accounting periods. This is true even after the close of a fiscal year. Consequently, the subsidiary ledger can change after the general ledger has been closed. While JFMIP requirements allow for overlapping of transactions in order to facilitate the recording of transactions in the proper accounting period, they restrict this overlapping to a limited duration of time (a few days). CMP allows back dating of transactions for an unlimited period of time.
6. The CMP system is not designed to close fiscal periods. The CMP reports summarize data on a case-to-date basis, rather than by fiscal period.

Federal Accounting Standards

FFMIA requires that the financial management system produce financial information that is in compliance with financial accounting standards which are used in the preparation of financial statements. Statement of Federal Financial Accounting Standards No.7 states that a claim becomes legally enforceable and measurable upon expiration of the date through which an individual may contest a court summons.

Current practices followed by the CMP regional offices result in CMP accounts which are not complete or in accordance with these standards. Specifically, cases are recorded in the CMP system which are in contested status and are not a legally enforceable claim.

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United States Government Standard General Ledger

FFMIA requires that the financial management system produce financial information that is in compliance with the U.S. Government Standard General Ledger (SGL) at the transaction level. The back wage systems do not substantially meet these requirements, as follows:

1. The system does not function as an adequate subsidiary to the DOLAR\$ general ledger control accounts. The detail maintained in the CMP system does not agree with the cash entries posted to the general ledger.
2. CMP transactions posted in DOLAR\$ cannot be traced back through the feeder systems to the detailed source record. The system used to determine total cash receipts recorded in DOLAR\$ does not provide transaction level detail. The detail is recorded in the CMP system; however, as indicated above, cash information recorded in the two systems does not agree, and the detail is summarized at the case level.

Recommendations

The Acting Chief Financial Officer and the Assistant Secretary for Employment Standards should provide a recommended remedial action plan and the time frames to implement such actions, and should ensure that a corrective action plan is developed and implemented to meet the FFMIA requirements, as follows:

Federal Financial Management Systems

1. **Implement properly designed internal controls which will provide management with reasonable assurance that the CMP financial management systems are operating effectively.**

Management's Response

Wage and Hour designed the CMP system to be in compliance with all government wide financial management and accounting standards. Since the deployment of the system in mid-1997, Wage-Hour has attempted to correct any deficiencies in the system itself that would lead to errors. Wage-Hour has also identified a need to provide additional guidance to Regional and District Office managers on the operation of the CMP system in order to prevent data entry errors and to ensure the accuracy of the data maintained in the system. In January of 1998, Wage-Hour issued an updated version of the CMP System Training Manual and User Guide to all District and Regional Offices. On January 6, 1998, the Acting Administrator issued a memorandum to Regional Administrators providing them with the preliminary findings of the audit of CMPs contained in the Statements of Facts, requiring that "Each Regional Administrator should take immediate steps to correct any errors in the CMP system and to ensure that District and Regional Office staff follow established procedures of the CMP system." The Wage-Hour National Office will continue to monitor the progress of the Regions in administering the CMP system and will provide training, assistance and oversight as appropriate.

OIG's Conclusion

We understand that management is committed to developing a CMP system that is in full compliance with applicable standards. This recommendation was provided to management based on the results of our audit of the new CMP system, as currently designed and operated, which disclosed that certain aspects of the new system do not meet the requirements referred to in FFMIA. This recommendation is **unresolved** pending receipt and review of a specific plan for corrective action which will address the noted system weaknesses and provides time frames and milestones for completion. The FFMIA requires that remediation plans bring the agency's financial management systems into substantial compliance within a 3 year period from the date that noncompliance was determined.

2. The CMP financial management systems should include the following features:

- **A proper cutoff of accounting periods, with a limited period of time for correcting and recording transactions subsequent to the end of the period.**
- **The ability (and requirement) to close accounting periods.**
The ability to generate subsidiary reports using the same accounting cutoff and frequency as the general ledger control accounts.
- **Controls which will ensure that totals on the subsidiary reports agree to totals posted to the general ledger. Specifically, WHD should develop and implement procedures for reconciling cash receipts recorded in the CMP system with those recorded at the National Office into the DOLAR\$ general ledger.**
- **Controls to ensure that recorded information is accurate, reliable, timely and complete.**

Management's Response

Wage and Hour will make necessary corrections and adjustments to the CMP Tracking System by June 30, 1998 to ensure that any of the features listed above that are not included in the existing system are added.

OIG's Conclusion

Based on the fact that management has agreed to make the appropriate corrections to the CMP system and has provided a date for completion, this recommendation is **resolved and open**. Closure is dependent on the OIG's review of the system changes and the outcome of the FY 1998 audit.

Financial Accounting Standards

- 3. The CMP system should record only those cases which are not in contested status, and represent a valid, legally enforceable claim in accordance with SFFAS standards. This policy should be communicated to and enforced at all regional offices.**

Management's Response

The CMP system was specifically designed to record only those cases that are not in contested status—actual receivable amounts. At the time of implementation or initial load, the District and Regional Offices were provided with explicit instructions concerning which cases should be entered into the system. The Regional Administrators have acknowledged that greater care should have been taken to ensure that only those cases not in contested status were entered initially. All of the Regions have taken steps to correct the errors in the "Initial Load" as a result of the Statement of Facts issued to the Regions that were audited and the aforementioned January 6, 1998 memorandum from the Acting Administrator. It is expected that all corrections will be completed no later than March 31, 1998.

OIG's Conclusion

Management's response discussed errors made in the initial load of the CMP system. However, our audit disclosed that contested cases were entered into the system both in the initial load and in subsequent input. This recommendation is **unresolved** pending receipt and review of management's specific corrective action plan which addresses continuing operation of the system, relative to the process for identifying and recording cases where the appeal process is complete or becomes a final order.

U.S. Government Standard General Ledger

- 4. The CMP subsidiary systems used to support DOLAR\$ general ledger accounts should:**
- Meet the requirements listed in recommendation 2. above.**
 - Provide a complete and accurate report of the source transactions which comprise the general ledger balance, thus providing an audit trail.**

Management's Response

Wage and Hour will ensure that the CMP subsidiary systems used to support DOLAR\$ will meet U.S. Government Standard General Ledger requirements.

OIG's Conclusion

This recommendation is **resolved and open** with respect to the requirements listed in recommendation 2 above.

With respect to providing an adequate audit trail, while management agrees to this recommendation, specific actions and time frames were not provided in management's response. This recommendation is **unresolved** pending receipt and review of management's proposed corrective actions, inclusive of time frames and milestones for completion.

Status of Prior Year Findings and Recommendations

In our FY 1993 audit (OIG Report No. 12-94-012-07-001), we recommended the following:

- ***The Wage and Hour Division should complete its CMP tracking system so that it can function as a subsidiary system for CMP assessments, collections, adjustments, and related receivable balance on a case-by-case basis.***

Prior to FY 1997, WHD did not have a system to account for CMP receivables. In FY 1997, WHD implemented the new CMP system which records CMP activity on a case-by-case basis, and records assessments, collections, adjustments and the corresponding receivable balance for each case entered into the system.

While the new CMP tracking system was installed nationwide, we were informed that the system is not yet fully implemented. The report features are still under design, and the transactional interface with the general ledger is not yet complete.

This recommendation is considered **resolved and open**, and will be closed upon completion and full implementation of the system.

Management's Response

Wage and Hour expects to complete full implementation of the CMP tracking system by September 30, 1998.

OIG's Conclusion

This recommendation remains **resolved and open**. We will review the status of this recommendation in our FY 1998 audit.

- ***After the CMP subsidiary system in recommendation 1 is implemented, beginning balances should be reconstructed on a case-by-case basis and adjustments to the subsidiary system and DOLAR\$ should be recorded as necessary so that the new subsidiary system will begin with complete, accurate, documented, case-by-case balances that agree with the related control accounts in DOLAR\$.***

Management's response to this recommendation indicated that beginning balances would be constructed and recorded in the CMP system, as follows:

1. all open and active cases would be entered into the system,
2. all newly activated cases would be entered into the system, and
3. inactive open cases would be reviewed and either closed or entered into the system.

When the CMP system was installed at each region, cases were analyzed and the beginning balances recorded as of the date of implementation. (The implementation dates varied region to region.) According to management, only those cases with an accounts receivable balance as of the date implemented were entered into the CMP system, as follows:

1. All open and active prior year cases (initiated prior to FY 1997) were entered into the system if there was a remaining accounts receivable balance for the case as of the

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implementation date. If cases were paid in full during FY 1997 prior to the implementation date, the activity was not recorded in the CMP system.

2. Newly activated cases (initiated in FY 1997) were entered into the system only if there was a remaining accounts receivable balance as of the implementation date. If cases were initiated and paid in full during FY 1997 prior to the implementation date, the activity was not recorded in the CMP system.
3. Inactive open cases were not reviewed to determine if any additional cases should be entered into the CMP system (item number 3. in management's response above). Therefore, the completeness of the accounts receivable balance as of September 30, 1997, was not determined.

The result of management's actions was a significant reduction of the CMP receivable. Of the \$60 million CMP balance as of September 30, 1996, a relatively small portion was entered into the CMP system. The CMP balance as of September 30, 1997, was \$4.6 million, which includes both old and new cases.

Our FY 1997 audit procedures included tests of sample cases recorded in the new CMP system. These tests detected misstatements in the CMP accounts receivable balances caused primarily by incorrect or incomplete data input into the CMP system. The beginning balances carried forward into the new system were not complete, and in some cases, were recorded for the incorrect amount. Of the 159 cases selected, 94 or 59 percent had one or more errors. These errors misstated the CMP receivable by \$1.7 million, or 36 percent of the \$4.6 million accounts receivable balance recorded at September 30, 1997.

Specifically, we identified:

- 21 contested cases which were recorded in the CMP system, causing misstatement of the account receivable balance of \$943,848. Since contested cases do not represent a legally enforceable or measurable claim, they are not considered valid accounts receivable and should not have been included in the CMP accounts receivable balance.
- 20 cases where the assessment was recorded for the wrong amount or was not recorded in the CMP system, causing misstatement of the accounts receivable balance of \$95,394. This includes cases recorded for the initial assessment rather than the amount of the final agreement, and cases which were incorrectly adjusted.
- 3 invalid cases which were recorded in the CMP system, causing misstatement of the accounts receivable balance of \$74,250.
- 51 cases where cash receipts were not recorded timely, or were not correctly recorded in the CMP system, causing misstatement of the accounts receivable balance of \$554,678.
- 2 cases where documentation was not available to support the validity of the accounts receivable, totaling \$10,600.

Based on our FY 1997 audit, this recommendation is **resolved and open**. Closure of this recommendation is dependent on the following:

APPENDIX A

1. WHD needs to review and appropriately resolve the inactive open cases which were not recorded in the CMP system (either write them off or record them in the CMP system), as management indicated in their response to the FY 1996 audit report.
2. WHD needs to review the beginning balances and the subsequent activity recorded in the CMP system during FY 1997 and post adjustments as necessary to correct the recorded balances.
3. The OIG's successful review of documentation which supports the steps performed in 1. and 2. above, including support for the rationale for writing off over \$50 million of CMP receivables and for any adjustments to existing balances. (Documentation to support why the receivable balance dropped from \$60 million in FY 1996 to \$4.6 million in FY 1996, and to support the "clean up" of amounts recorded in the CMP system in FY 1997.)

Management's Response

Wage and Hour will complete the steps listed above and provide the requested documentation by June 30, 1998.

OIG's Conclusion

This recommendation is **resolved and open**, closure is dependent on our receipt and review of the aforementioned documentation.

- ***Procedures should be developed and implemented to ensure that the CMP system and Back Wage Tracking System (BTS) remain up-to-date and in agreement with the control accounts in DOLAR\$.***

As previously stated, the CMP system was implemented nationwide in FY 1997. However, the reporting functions and the transactional interface to DOLAR\$ are not yet complete.

This recommendation is **resolved and open**. Closure is dependent on full implementation of the system and successful review of the transactional interface and other methods put into place by management to ensure that the system remains reconciled and current.

Management's Response

Wage and Hour expects to complete full implementation of the CMP tracking system by September 30, 1998.

OIG's Conclusion

This recommendation remains **resolved and open**. We will review the status of this recommendation in our FY 1998 audit.

3. EDP Controls

Current Year Findings and Recommendations

a. Documentation

In the current audit we reviewed the following systems to ensure adequate system documentation existed and was maintained up-to-date: DOLAR\$, ETA's Grants and Contract Management Information System (GCMIS), Black Lung Disability Trust Fund EDP System (BLDTF), Unemployment Trust Fund EDP System (UTF), Federal Employee Compensation Act EDP System (FECA), and Job Corps' Student Pay, Allotment and Management Information System (SPAMIS). We noted the following instances where documentation was lacking:

- In FECA, the employees and contractors in the Branch of Automatic Data Processing (ADP) Coordination and Control have not maintained adequate documentation of technical programming or user operations. None of the applications are documented with system flow charts, file interactions, interfaces with other applications, pseudo code, etc. The Sequent applications have not been updated, and the Mainframe applications are outdated and incomplete.
- In Job Corps, there was no software development or configuration management documentation for any of the major systems (Placement Agency Information System (PAIS), Joint Action Community Service (JACS) Software, Outreach and Admission Student Input System (OASIS), and SPAMIS) supported by the Job Corps Data Center (JCDC). Job Corps has, subsequent to the audit, begun documentation of individual systems scheduled for completion from June 30, 1998 through June 30, 1999.

OMB Circular No. A-130 paragraph 8a(1)(j) states *"agencies shall . . . record, preserve, and make accessible sufficient information to ensure the management and accountability of agency programs, and to protect the legal and financial rights of the Federal Government."*

Lack of technical programming documentation reduces the ability to determine what an application accomplishes, or how. The ability to track data flow and file interactions is also hindered. Software changes are more difficult to design, test and implement and the learning curve for new personnel is increased including times when a new contractor assumes responsibility.

Recommendation

- 1. We recommend that the Chief Information Officer ensure that all departmental systems are properly documented.**

APPENDIX A

Management's Response

Management was unable to locate OMB A-130 text referring to "Lack of technical programming documentation" in the paragraph cited, or elsewhere in the Circular. However, the OCIO does recognize the benefits of maintaining complete and current documentation. The OCIO will prepare and issue a memorandum to IRM Managers emphasizing sound information technology management practices, including maintaining documentation.

The Office of Job Corps (OJC) concurs with the recommendation and submits the following plan for completion.

- (1) *Formal software development standards, including naming conventions for all modules and data tables, will be developed by September 30, 1998 for:*
 - a. *Placement Agency Information Software (PAIS),*
 - b. *JACS Post Placement Software (JACS),*
 - c. *Outreach and Admission Student Input System (OASIS), and*
 - d. *Student Pay, Allotment and Management Information System (SPAMIS).*
- (2) *Formal configuration management documentation, such as procedures for integrity when producing software, will be developed for PAIS, JACS, OASIS, and SPAMIS. Software documentation, including diagrams and flow charts, should be completed by September 30, 1998.*
- (3) *Software documentation, including diagrams and flow charts, will be developed for:*
 - a. *PAIS - Completion date: December 31, 1998,*
 - b. *JACS - Completion date: September 30, 1998,*
 - c. *OASIS - Completion date: June 30, 1998, and*
 - d. *SPAMIS - Completion date: June 30, 1999.*

OIG's Conclusion

As it pertains to FECA, this recommendation is **unresolved** until a corrective action plan is provided to complete documentation. As it pertains to Job Corps, this recommendation is **resolved and open**, with closure pending a followup review subsequent to the development dates proposed.

b. Computer Security Practices - User Access Controls

During the current audit we found that two Black Lung personnel, classified as mail or file clerks, were granted inappropriate system access. User IDs were set up although they have no need for system access according to their job descriptions in the contract.

OMB Circular No. A-130, Appendix III, A.3. "Automated Information Security Programs. Agencies shall implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications."

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Appendix III, A. 3. b. 2) c). *“Personnel Security. Incorporate controls such as separation of duties, least privilege and individual accountability into the application and application rules as appropriate. In cases where such controls cannot adequately protect the application of information in it, screen individuals commensurate with the risk and magnitude of the harm they could cause. Such screening shall be done prior to the individuals being authorized to access the application and periodically thereafter.”*

Security of data and programs are compromised when IDs are issued for personnel without a need for this information

Recommendation

- 1. We recommend that the Chief Information Officer ensure that controls over user access and segregation of duties are evaluated and developed where needed.**

Management's Response

On October 7, 1997 the Chief Information Officer issued a call for new and revised security plans which are to be submitted 2/27/98. Assistance in developing sound security plans assistance was provided in a Contingency/Disaster Recovery workshop co-sponsored by OCIO and OIG. Further, at the advice of the National Institutes of Standards and Technology, OCIO provided agencies with the draft User Guide for Developing and Evaluating Security Plans for Unclassified Federal Automated Information Systems.

OIG's Conclusion

This recommendation is **resolved and open**. To close, provide evidence that procedures are in place that limit system access based on need-to-know.

c. Computer Security Plans

In the current audit we reviewed the following systems to ensure adequate computer security plans existed and were maintained up-to-date: DOLAR\$, GCMIS, BLDTF, UTF, FECA, and SPAMIS. We noted the following instances where security plans were lacking:

- Job Corps had no formal policy granting system access, nor training for personnel in security procedures, or password usage. Job Corps has, subsequent to the audit, begun development of a security plan to be completed by June 30, 1998. Security training is scheduled to be completed by September 30, 1998.
- There is no computer security plan for ESA's Division of Automated Systems Management (DASM) computer center, which is the host to FECA's information systems.
- DOLAR\$ security plan is incomplete. The plan does not address granting system access, conducting security training or conducting security reviews.

Appendix III to OMB Circular No. A-130 paragraph B. a(2) states *“the Computer Security Act requires that security plans be developed for all Federal computer systems that contain sensitive information. Given the expansion of distributed processing since the passage of the Act, the presumption in the Appendix is that all general support systems contain some*

sensitive information which requires protection to assure its integrity, availability, or confidentiality, and therefore all systems require security plans.”

Written policies and procedures ensure continuity in operations between users and in the case of staff turnover. In addition, written procedures serve as a reminder to perform periodic reviews and refresher training.

Recommendation

- 1. We recommend that the Chief Information Officer ensure that computer security plans are developed and implemented for all departmental systems.**

Management's Response

On October 7, 1997 the Chief Information Officer issued a call for new and revised security plans which are to be submitted 2/27/98. At the advice of NIST, agencies were instructed to follow the draft User Guide for Developing and Evaluating Security Plans for Unclassified Federal Automated Information Systems. Upon submission, this office will review all plans for completeness and documentation of conformance with sound security practices as prescribed in the User Guide. We will incorporate agency plans into a comprehensive Department-wide plan.

OIG's Conclusion

This recommendation is **resolved and open**. Closure depends on a Departmentwide plan being promulgated by the CIO and subsequently reviewed by this office. In addition, documentation that the agency plans cover the issues noted above for Job Corps, FECA and DOLAR\$ should be provided.

d. Computer Security Termination Procedures

In the current audit we reviewed the following systems to ensure adequate computer security termination procedures existed and were maintained up-to-date: DOLAR\$, GCMIS, BLDTF, UTF, FECA, and SPAMIS. We noted the following instances where termination procedures were lacking:

- In the SunGard system, two Black Lung user IDs were found for personnel who were no longer assigned to the organization. Also, three persons no longer under contract, or assigned, to the organization had access to the Claimant Information Processing Subsystem (CIPS) and Medical Bill Processing Subsystem (MBPS).
- Job Corps had no formal procedures for removal of system IDs or passwords upon termination of an individual's employment. Job Corps has, subsequent to the audit, implemented more formal security termination procedures and is developing a security plan to be completed by June 30, 1998.
- In the FECA National Office, a checklist is used when terminating an employee or contractor. However, there are no written procedures for use of the checklist so personnel in DASM are not notified to deactivate terminated individuals.

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- In FECA's Jacksonville District Office, student IDs assigned for training were maintained on the computer long after the training was completed.

OMB Circular No. A-130 paragraph 8a(1)(g) states in part *"agencies shall protect government information commensurate with the risk and magnitude of harm that could result from the loss, misuse, or unauthorized access to or modification of such information."*

Failure to remove an active user ID for terminated employees or contractors renders the system vulnerable to malicious acts, sabotage, and other insubordinate activities.

Recommendation

1. **We recommend that the Chief Information Officer ensure that computer security plans include procedures for proper termination of system access of former employees, and those procedures be implemented.**

Management's Response

On October 7, 1997 the Chief Information Officer issued a call for new and revised security plans which are to be submitted 2/27/98. The draft User Guide for Developing and Evaluating Security Plans for Unclassified Federal Automated Information Systems that agencies have been instructed to use calls for security plans to include a full description of processes which are designed to permit only authorized access to or within the application, to restrict users to authorized transactions and functions, and/or to detect unauthorized activities, such as access control lists. Further, agencies have been instructed to "indicate how often Access Control Lists are reviewed to identify and remove users who have left the organization or whose duties no longer require access to the application," (p. 47). Our review of agency submissions will focus on this area and if procedures are considered inadequate, we will work with the agencies to improve them.

OIG's Conclusion

This recommendation is **resolved and open**. Closure depends on a Departmentwide plan being promulgated by the CIO and subsequently reviewed by this office. In addition, documentation that the agency plans cover the issues noted above for Black Lung, Job Corps and FECA should be provided.

e. **Security Clearance**

During our current audit we found that security clearances have not been performed on several data processing personnel considered as critical users within the DOLAR\$ system.

OMB Circular No. A-130, Appendix III, A.3. *"Automated Information Security Programs. Agencies shall implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications."*

Appendix III, A. 3. b. 2) c). *"Personnel Security. Incorporate controls such as separation of duties, least privilege and individual accountability into the application and application rules as appropriate. **In cases where such controls cannot adequately protect the application of***

information in it, screen individuals commensurate with the risk and magnitude of the harm they could cause. Such screening shall be done prior to the individuals being authorized to access the application and periodically thereafter."

Sensitive information must be protected from individuals who have not been cleared or whose background is unknown.

The OCFO was informed in January 1997 by the Human Resource Center's Assistant Director of OASAM Security that EDP personnel needed security clearances. OCFO management has not yet acted on this matter.

Recommendation

1. **We recommend that the Chief Information Officer ensure that a background check be conducted for all Government and contractor management personnel with high levels of system access.**

Management's Response

On October 7, 1997 the Chief Information Officer issued a call for new and revised security plans which are to be submitted 2/27/98. Plans must include a statement as to whether all positions have been reviewed for sensitivity level and as to whether individuals have received the background screening appropriate for the position to which they are assigned.

The OCIO agrees that in some cases background investigations of Government and contractor management personnel with high levels of system access are an appropriate security precaution. However, we also endorse the National Institute of Standards and Technology (NIST) guidance that "In general, it is more effective to use separation of duties and least privilege to limit the sensitivity of the position, rather than relying on (background) screening to reduce the risk to the organization." (Generally Accepted Principles and Practices for Securing Information Technology Systems, September 1996, p. 28.) This is also reflected in the draft User Guide which we provided to DOL agencies.

OCIO has already begun working with the OASAM Human Resources Center, which has provided us with considerable documentation, including a Computer/ADP Position Sensitivity Levels/Risk Criteria matrix to determine if and what kind of background investigation should be conducted based upon job responsibilities and access. We have also contacted the Division of Contract Negotiations & ADP Procurement for information on requiring background investigations for contractor employees. The NIST Security Managers Forum has been a source of information on procedures and practices in other Federal agencies. Although we expect the number of instances to be small, we are prepared to assist agencies in determining need and initiating screening when required.

OIG's Conclusion

This recommendation is **unresolved**. While separation of duties applies to system users, input personnel, interrogators and browsers, such provisions do not apply to system architects, programmers, and operators. Moreover, background checks are needed for contractors who are not subject to the same daily scrutiny as government workers, and consequently may ignore such controls as separation of duties for reasons of expediency.

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Resolution of this recommendation will depend on our review and concurrence with OCIO's policy to determine if and what kind of background investigations should be conducted.

f. Computer Security - Separation of Duties

In the current audit we found that there are no standardized, written procedures to control input into DOLAR\$. Currently, a user entering invoice data can create a payee vendor record in the vendor master file without automatic review. In addition, the name and address of the vendor can be changed by data entry personnel. The only input verification which can be performed is a review of the document that is used for input, but there is no requirement to do so.

OMB Circular No. A-127, Financial Management Systems, paragraph 8a states: "*Consistent Internal Controls. Internal controls over data entry, transaction processing and reporting shall be applied consistently throughout the system to ensure the validity of information and protection of Federal government resources.*"

Users of the system inevitably will input erroneous data. Without adequate input controls, the system may produce inconsistent and inaccurate information. In addition, users could generate unauthorized payments to bogus vendors.

Recommendation

- 1. We recommend the Acting Chief Financial Officer ensure that input control procedures be adopted for the DOLAR\$ system which contain adequate separation of duties between entering invoice data and creating vendor records.**

Management's Response

Currently, a voucher examiner can create a payee vendor record on the V6 screen and then register an invoice for payment using that payee vendor ID (prefix of P or T) as a valid vendor number. However, the voucher examiner cannot approve the invoice for payment. Payments and payee addresses must subsequently be approved by verifying officers who are usually the examiners' supervisors. In addition to the existing internal controls, DOLAR\$ will be modified to prevent voucher examiners from using payee vendor IDs to register invoices. A valid vendor ID (prefix other than P or T) will have to exist in the vendor file to register an invoice. This program modification should be completed by March 31, 1998.

OIG's Conclusion

This recommendation is **resolved and open**. Closure is pending our review of program modifications proposed.

Status of Prior Year Findings and Recommendations

Disaster Recovery Plans

In our FY 1995 audit (Report No. 12-96-007-13-001), we made the following recommendation to correct EDP system weaknesses in FECA and ETA:

- *We recommended that the Chief Financial Officer ensure that written disaster recovery plans are developed where needed.*

FECA still does not have an adequate disaster plan in place. If a disaster occurred, the computer systems could not be put back into operation immediately. The plan assumes replacement hardware will be available at a backup facility that has not been designated. In addition, the plan covers only the district office systems and not headquarters.

ETA's Office of Information Resources Management (OIRM) has taken no substantial steps to implement corrective action. ETA would like the Department to take the lead in assisting all agencies in developing these plans, as there are common issues that must be addressed by all agencies.

The UIS still does not have a formal written disaster recovery plan which would ensure the safety of data and software in the event of some type of disaster.

During our 1997 EDP Audits, additional problems with disaster recovery plans were identified as follows:

- Changes made to Black Lung programs caused by the recent assumption of activities from the Social Security Administration have not been tested in the Disaster Recovery Program. If a disaster occurred, there exists a possibility the recovery process may not work completely.
- Job Corps' plan did not include backup provisions, nor instructions for restoring the operational system or procedures for moving operations to an off-site location. Job Corps has, subsequent to the audit, entered a contract for backup processing and is developing a written plan that is scheduled for completion by August 31, 1998.
- DOLAR\$ does not have a complete contingency plan. Current documentation contains disaster recovery plans for IPS (Payroll) and SunGard. Disaster recovery plans for LAN and DOLAR\$ have not been completed. Also, plans for less than a complete disaster have not been documented.

This recommendation is changed from **resolved and open** to **unresolved** pending a corrective action plan to ensure that disaster recovery plans are developed.

Management's Response

The Employment and Training Administration (ETA), Office of Management Information and Support (OMIS) is currently developing it's network security plan which is due to the U.S. Department of Labor (DOL), Information Technology Center by February 27, 1998. The OMIS is also developing a formal risk assessment to identify threats to ETA systems and provide cost/benefit information necessary to support the risk management process. Upon

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completion of the risk assessment, the OMIS will develop a full disaster recovery plan covering critical ETA systems. In the interim, the OMIS will continue its nightly backup of all ETA National servers which are stored at a remote site on a weekly basis, along with permanent backup tapes that are produced monthly, quarterly, and annually.

Similarly, the OJC also concurs and is proceeding with the corrective actions discussed in the OIG recommendation.

Modifications to the Black Lung software programs needed to service Part B claims under the Memorandum of Understanding between DOL and the Social Security Administration signed September 27, 1997, were under development and testing during the second half of FY 1997. Those programs were not put into operation until October 1997. They will be included in our next regular Disaster Recovery test, which is expected to take place in April or May 1998.

A complete and fully tested disaster recovery plan for DOLAR\$ was presented to the Information Technology Center (ITC) in OASAM in 1997; a copy of that plan, as well as those for the Interactive Payroll System ("Payroll") and ADABAS (the database management system on which Payroll is run) is available at any time.

In the event of a less-than-complete disaster, the IDMS DBAs will restore the DOLAR\$ database from the previous night's onsite backup tape cartridges. Since the procedures for a complete disaster have been fully documented, it is not necessary to provide an additional set of plans for various lesser contingencies. Having demonstrated our ability to recover in the event of a complete disaster, we have also therein demonstrated our ability to recover in any lesser disaster. The DOLAR\$ disaster recovery plan, on its first page, specifies a set of manuals that are necessary references for the use by the DBA in disaster recovery. We do not feel it necessary to duplicate the information in those manuals.

Other systems not addressed above will be included in the comments and corrective action plans submitted in response to the final audit report.

OIG's Conclusion

This recommendation is **unresolved** as it pertains to FECA and UIS, pending submission of corrective action plans for these areas. The recommendation is **resolved and open** as it pertains to ETA's OIRM, the Black Lung program, Job Corps and DOLAR\$. Closure is pending submission of disaster recovery plans to us and our review and concurrence with the plans.

Documentation

In our FY 1995 audit (Report No. 12-96-007-13-001), we made the following recommendation concerning documentation of the FECA EDP applications at the District Offices:

- ***We recommended that the Chief Financial Officer ensure that complete and current operating procedures are implemented for the FECA EDP application.***

FECA is in the process of documenting the operating procedures for the FECA EDP applications that are run at the district offices. This documentation will include: daily runs, ad hoc runs, backups, descriptions of applications and problem solving techniques. Documentation currently exists for: job libraries, production libraries, and run cycles which are daily,

monthly, quarterly, and yearly. Based on management's corrective action plan, this recommendation is **resolved and open**. Closure is dependent on OIG review of documentation at the district offices as part of next fiscal year's audit in regard to daily runs, ad hoc runs, backup, description of applications and problem solving techniques.

Management's Response

Management has no additional comments.

Application Development

The FY 1996 audit report (OIG Report No. 12-97-005-13-001), recommended that the Chief Financial Officer ensure that:

- ***Complete and current procedures for application development and maintenance requirements are implemented for the Office of Information Resources Management in ETA for the GCMIS system.***

ETA made the decision to migrate GCMIS to an Oracle-based system. Consequently, no work has been done to meet the documentation requirements for the existing GCMIS system, nor has ETA formalized any plans to ensure that the new Oracle-based system meets the documentation requirements of JFMIP. Therefore, this recommendation remains **unresolved**.

Management's Response

The ETA, OMIS has updated and continues to maintain documentation on the current Grant Contract Management Information System (GCMIS) along with any changes that are made to it. This documentation is available for review at any time. At the same time we have started a comprehensive Year 2000 conversion and redesign effort for our accounting and financial tracking functions. We are using a life cycle approach which includes full user involvement and formal approval and acceptance procedures. Documentation supporting this is also available for review at any time. Our efforts on the Year 2000 conversion and redesign were in the very early stages during FY 1997 which the documentation reflects.

OIG's Conclusion

This recommendation is **resolved and open**. Closure is pending our review of system documentation and Year 2000 procedures, which were not made available to us during the audit.

Computer Security Practices - User Access Controls

During our FY 1996 EDP audit of GCMIS (Report No. 12-97-005-13-001), it was determined that, regardless of their job function, all GCMIS users had full access to all modules of GCMIS (except budget and administration). There are 90 employees in ETA that use GCMIS to process \$8 billion in grant expenses each fiscal year. Any user could post transactions into GCMIS which would then flow through the interface into the HHS-Payment Management System, thereby potentially changing the amounts made available to grantees and contractors for draw down. The result is that segregation of duties is not effective in ensuring data integrity and resources are not safeguarded against misuse. We made the following recommendation:

FINDINGS AND RECOMMENDATIONS

- ***We recommended that the Chief Financial Officer ensure that controls over user access and segregation of duties are evaluated and developed where needed.***

During the last week of Fiscal Year 1997, ETA instituted a security module which limited each individual's access to the appropriate module, based on the user's profile. However, the security module was instituted only at the National Office. The Regional Offices still have complete access to the system (except budget and administration). We have tested the security module at the National Office and have found it to be effective. However, since the security module has not been installed at the Regional Offices, the recommendation remains **resolved and open**.

Management's Response

In a meeting between OIG and ETA staff on January 27, 1998, it was agreed that this matter could be resolved if the ETA recertified regional office staff who will have full or partial access to the GCMIS. Full access confers write authority which permits users to add, delete, and modify system data. It also limits access to the obligation and payment modules depending on user needs. In contrast, partial access confers read authority only which prohibits users to add, delete or modify system data.

On February 4, 1998, a memorandum was issued to the regional offices requesting that they recertify their GCMIS users by February 13, 1998. Based on the earlier conversations with the OIG and the schedule for completing the corrective actions, we expect that this recommendation will be resolved and closed before issuance of the final audit report.

OIG's Conclusion

This recommendation is **resolved and open**. Subsequent to our audit, ETA implemented procedures to limit user access at the regional offices. Closure is dependent on our review of corrective action implementation during the FY 1998 audit.

4. Accounting for ETA Debt Management

Current Year Findings and Recommendations

a. FFMIA Compliance

The *Federal Financial Management Improvement Act of 1996* was effective beginning in FY 1997. The implementation guide for FFMIA requires that each agency implement and maintain financial management systems that comply substantially with (1) Federal financial management systems requirements as outlined in OMB Circular A-127 and the Joint Financial Management Improvement Program's (JFMIP) *Core Financial System Requirements*, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (SGL). The ETA Debt Management subsidiary system, Rbase, is not in substantial compliance with FFMIA because it does not meet all of these requirements. The system is not in compliance because it does not provide timely information and it does not provide a complete audit trail, enabling the tracing of transactions from the source documents to the SGL accounts and vice versa.

Federal Financial Management Systems

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OMB Circular A-127 (Revised), *Financial Management Systems* and JFMIP require that Financial Management Systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable, and consistent information for decision makers and the public. According to JFMIP, this includes the ability to provide a complete audit trail of transactions from source documents, or original input through the system, the ability to handle transactions consistently, and the ability to properly control the transaction. ETA's Debt Management system does not meet these requirements for the following reasons:

1. At year end, ETA posts lump sum adjusting entries into DOLAR\$ to record the differences between the prior year's ending balances and the current year's ending balances. These adjustments are made at the IAC level, not at the transaction level, which is required by the FFMIA.
2. Information is only entered into the Rbase subsidiary system on a quarterly basis, and the system is accessible by only one person. FFMIA requires that the system be able to provide current and complete information on a timely basis.
3. New receivables were not submitted to the Division of Accounting on a timely basis. ETA's policy is not to record a receivable until the "Final Agency Action" occurs. The Final Determination is not submitted to the Division of Accounting until the period for the grantee/contractor appeal has expired (usually 21 days for grants or 90 days for contracts). During FY 1997, one final determination was issued, and the period for appeal had expired, but it was never recorded in Rbase. ETA does not have an adequate tracking system for ensuring that all valid debts are recorded.

United States Government Standard General Ledger

FFMIA requires that the financial management system produce financial information that is in compliance with the U.S. Government Standard General Ledger at the transaction level. ETA's Debt Management system does not substantially meet this requirement, as follows:

1. Cash collections against current and expired appropriations are posted through GCMIS into DOLAR\$ with a debit to General Ledger account 1019 *Fund Balance - Collections* and a credit to account 1445 *Advances to Grantees* or account 2110 *Accounts Payable*. These transactions are posted at the Blanket Document Code level and are not directly traceable to Rbase, as required by FFMIA.
2. For cash collections against canceled appropriations, the collection is entered into GCMIS to "Prior Accounts," rather than to a particular grant or contract. Sometime during the year, an entry is made to adjust DOLAR\$, based on the SF-224 from GCMIS which includes these collections to "Prior Accounts." The entry is a debit to General Ledger account 3621 *Unavailable Receipts - Collections* and a credit to account 5900 *Other Revenue*. The transactions in these accounts are not directly traceable to Rbase, as required by FFMIA.

ETA has stated that the Rbase system will be replaced with the DOLAR\$ accounts receivable subsidiary system in March 1998. OIG will review the new system during the FY 1998 audit.

Recommendations

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The Acting Chief Financial Officer and the Assistant Secretary for Employment and Training should provide a recommended remedial action plan and the time frames to implement such actions, and should ensure that the new DOLAR\$ accounts receivable module used to record ETA debt activity complies with the FFMIA as follows:

Federal Financial Management Systems

- 1. Accounting entries should be posted at the transaction level instead of at the IAC level.**
- 2. Transactions should be posted timely and be accessible to managers. DOLAR\$ should be updated at least monthly.**
- 3. A tracking system should be in place to ensure that when a debt becomes legally enforceable, it is recorded timely.**

U.S. Government Standard General Ledger

- 4. A complete audit trail which is easily traceable from the subsidiary system to the SGL accounts for cash collections (against current, expired, and canceled appropriations), as well as the other transactions and SGL accounts, must be maintained on a current basis.**

Management's Response

Management of the Office of the Chief Financial Officer (OCFO) and the ETA adopted the ETA/OCFO work group recommendation to employ the Department of Labor Accounting and Reporting System (DOLAR\$) Accounts Receivable Subsystem. In December, 1997, ETA management presented the OIG with the major milestones and time frames established by the work group to deploy the DOLAR\$ Accounts Receivable Subsystem by March 31, 1998.

As discussed, the work group's successful transition in the electronic interface between the GCMIS and DOLAR\$ to transmit financial information at the grant and contract level provided the framework for the work group to consider other alternatives to current ETA accounting practices. Building on this effort, the DOLAR\$ Accounts Receivable Subsystem has become a priority for the work group, as evidenced by the targeted deployment date. We believe that the work group's recommendation will permit the ETA to take advantage of DOLAR\$ capabilities, should meet the ETA's debt management and cash collection needs and address the recommendations noted by the OIG.

OIG's Conclusion

We agree that the use of the DOLAR\$ Accounts Receivable Subsystem will address recommendations Nos. 1, 2, and 4, and we will review the implementation during the FY 1998 audit. However, we believe ETA still needs to address a system for tracking debts once a final determination is established and throughout the appeals process so debts are entered timely, once final agency action occurs or the period for appeal has expired. Therefore, this recommendation (No. 3) is **unresolved** with respect to a tracking system for recording new debts.

b. Write-Off Procedures and Maintenance of Documentation

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ETA wrote off 25 debts, totaling \$494,106, during FY 1997. We selected a sample of nine write-offs for testing. Of the nine items tested, three were written off because there was no documentation in the file to support the debt. In addition, another debt was written off because the debtor was unable to be located, although there was no indication in the file that any attempts were made to locate the debtor (e.g., telephone calls, etc.) Although, we did not test all 25 write-offs, ETA indicated there were 6 more cases written off, during the year, because there was insufficient documentation supporting these debts.

Writing off debts because information is missing results in a loss of assets to the Government. The total amount written off because of missing or insufficient documentation was \$180,903.

The Debt Collection Improvement Act of 1996, Section (m)(1)(g)(9) states:

Before discharging any delinquent debt . . . the head of such agency shall take all appropriate steps to collect such debt. . . .

OMB Circular A-123 (revised), Attachment II, Establishing Management Controls states:

*General management controls are . . .
Reasonable Assurance and Safeguards.
Management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation.*

Recommendation:

1. We recommend that the Acting Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that:

- **Procedures are established for complete documentation (whether electronic or paper) of all debts.**
- **Proper collection procedures are implemented and adequately documented.**

Management's Response

ETA management believes that its debt collection procedures are adequately documented and followed by its debt collection staff. We will adopt the few recommended improvements to these procedures that are discussed later in the report. However, we do not agree that current procedures are inadequate, as concluded by the OIG based on its review only of debts written off during FY 1997.

Rather, these debts were written off in accordance with formal ETA policy that is available for review by the OIG. This policy establishes criteria for the timely removal of debts that have been deemed uncollectible, after available means of collection have been exhausted. ETA management acknowledges that inadequate documentation was, to a certain extent, the basis for several of these write-offs. We would like to point out that any mishaps occurred prior to last year's review of procedures and the ETA's implementation of new and more rigorous management controls.

More specifically, ETA staff undertook an extensive effort during FY 1997 to identify, document, and remove uncollectible debts from its accounts receivable. With respect to the

FINDINGS AND RECOMMENDATIONS

four debts cited by the OIG, ETA staff were unable to locate the three case files that the OIG has known were missing for several fiscal years. We were also unable to establish contact with the fourth debtor who has apparently filed for bankruptcy. Without adequate documentation to support the claims, ETA management was unable to forward these debts to the U.S. Department of Justice or U.S. Department of the Treasury for further collection effort. Moreover, any additional debt collection efforts would have been constrained by bankruptcy laws and the statute of limitations which made enforcement of these debts highly unlikely given their age (10 to 20 years).

Therefore, ETA management concluded that it had little choice but, to terminate collection action. Accordingly, we wrote-off the four debts against the allowance for doubtful accounts which already included a bad debt reserve for 75.97 percent of the debts. Notwithstanding the unfortunate net loss of \$43,474, we believe that our actions were in the best interests of the ETA and the Federal government after considering the cost of additional collection efforts and the remote possibility of collection. We do concur with the OIG that management controls should provide reasonable assurance that ETA assets are safeguarded against waste, loss, unauthorized use, and misappropriation. However, we believe the four cases cited by the OIG are aberrations that occurred before recent management improvements and not a systemic weakness in the ETA's current system of internal control.

OIG's Conclusion

Our recommendation addressed both the lack of documentation supporting the debt and the lack of documentation supporting collection attempts. We agree that the lack of documentation supporting the debts occurred in prior years and that these debts should be written off. However, ETA has not addressed the implementation of procedures to adequately document collection attempts on all debts (e.g., contact logs/memos, bankruptcy documentation, credit reports, etc.). Therefore, this recommendation remains **unresolved** with respect to the documentation of collection attempts.

c. Cash Accountability

ETA collected \$6,217,314 in FY 1997 related to debts; however, the process of receiving and logging debt collection checks was not adequate.

When checks were received, they were entered in a computer spreadsheet, which was printed and signed by the person who was responsible for depositing the checks. This form included one or more checks received at the same time. The forms were maintained in a folder. Since no control numbers were assigned to these forms, there was no way to properly account for all the check forms. Forms could be destroyed or misplaced and there would be no record of receipt of the check. ETA was unable to locate 19 forms for the 77 checks we tested.

Later in the debt accounting process, a photocopy of the check was used to make an entry into a manual (handwritten) log, which included a log number. The recording of the photocopy of the check in the manual log is redundant and does not serve a useful purpose. There is no need for both a computer-prepared and a handwritten log. These two logs should be combined, with the control number on the computer form, in compliance with the format established in the DLMS.

The Division of Accounting did not consistently deposit checks on a timely basis. Of the 25 collections we tested which were \$1,000 or greater, three checks (12 percent) were not

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deposited within 3 calendar days, as required. Of the 27 collections we tested which were less than \$1,000, one check (4 percent) was not deposited within 8 calendar days. As previously mentioned, 19 collections could not be tested for timeliness of deposit because we were unable to locate the computer log forms. ETA's stated policy is to make deposits on Monday, Wednesday, and Friday each week. The Division of Accounting did not have any explanations for these late deposits.

When checks were received, they were not immediately stamped for deposit to the U.S. Treasury, to ensure that they were not misappropriated. The checks were not endorsed until the person who prepared the deposit stamped the check, which could be days after the check is received.

Because adequate control was not maintained at the time a check was received, the chances for misappropriation of checks increased. In addition, late deposits decreased interest income to the Government.

OMB Circular A-123 (revised), Attachment II, *Establishing Management Controls* states:

*General management controls are . . .
Reasonable Assurance and Safeguards.
Management controls must provide reasonable assurance that assets are
safeguarded against waste, loss, unauthorized use, and misappropriation.*

DLMS 6, Chapter 900, Section 942 states:

The basic cash control record for recording cash or checks received in the Department is DL 1-301 Cash Receipts Register (CRR). The CRR enables individuals to record all cash receipts and their disposition.

DLMS 6, Chapter 900, Section 943 b. states:

Frequency of Deposits. Agencies must deposit their funds at a financial institution no less frequently than weekly, regardless of the amount. However, collections that accumulate to \$1,000 or more should be deposited immediately.

Recommendation:

1. **We recommend that the Acting Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that:**
 - **ETA combines the two check logs into one log in which all checks are immediately recorded. The log should contain, at a minimum, the information specified in the DLMS. Procedures should be established so that unauthorized changes cannot be made to the log sheets, and control numbers should be used so that all log sheets can be accounted for.**
 - **Checks are deposited on a timely basis. Checks which accumulate to \$1,000 or more should be deposited immediately (i.e., the day the checks are received) in accordance with the DLMS. Checks which, in total, are less than \$1,000 should**

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be deposited at least weekly (i.e., within 7 calendar days from the date of receipt).

- **Checks are immediately stamped for deposit to the U.S. Government by the person who opens the mail and logs the checks.**

Management's Response

ETA management had already recognized and begun to implement the recommended improvements to its procedures for receiving and recording cash collection. ETA staff now use one sequentially numbered check log that can be changed only with proper authorization. ETA staff also endorse checks immediately after they are received for deposit to any Federal Reserve Bank, Branch, or General Depository.

However, ETA staff will continue to make deposits based on the scheduled pickup times, as contracted by the DOL, Office of the Assistant Secretary for Administration and Management Services (OASAM). Currently, this schedule calls for the pickup of deposits by designated couriers every Monday, Wednesday, and Friday, excluding holidays. As a normal course, this schedule should ensure that checks received during the day are deposited on the following business day, thus allowing ETA personnel the time to process the receipt of checks.

OIG's Conclusion

We will review ETA's implementation of new procedures for stamping and logging checks. However, based on our testing, we do not believe that all checks are being deposited in accordance with the schedule noted by ETA, and that exceptions are not being monitored and followed up on.

The current deposit schedule does not conform to the standards established in the DLMS. OASAM should either revise the deposit schedule or the DLMS should be revised to reflect departmental policy. Therefore, this recommendation remains **unresolved** with respect to the timeliness of deposits.

d. Administrative Costs and Penalties

ETA does not charge administrative costs or penalties to its debtors. This does not comply with the *Debt Collection Act of 1982*. Although the waiving of administrative costs and penalties is allowable under certain circumstances, ETA has not documented the necessary steps to ensure that those circumstances apply. In addition to not being in compliance, potential revenue has been lost by the Government.

The Debt Collection Act of 1982, Section 11, states:

... the head of an agency or his designee shall, with respect to claims owed by persons—

assess charges to cover the costs of processing and handling delinquent claims, and
(B) assess a penalty charge, not to exceed 6 per centum per annum, for failure to pay any portion of a debt more than ninety days past due.

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DOL codified these requirements for collection of administrative costs and penalties at 29 CFR, Subtitle A, Subpart C, ¶20.50 to 20.62. DOL's regulations (¶20.59) state that agencies must assess the administrative costs and penalties:

The Department of Labor agency responsible for collecting the claim shall assess against debtors charges to cover administrative costs incurred as a result of the delinquent debt; that is the additional costs incurred in processing and handling the debt because it became delinquent.

The regulations allow waivers of these charges, but "appropriate circumstances" should be documented. ETA has not documented the "appropriate circumstances" for any of these cases. Paragraph 20.61 states:

*. . . waiver [of charges] is permissive and may be exercised only in accordance with the standards set by these regulations.
(b) Agencies may waive interest and other charges under appropriate circumstances. . . .*

Recommendation:

1. **We recommend that the Acting Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that:**
 - **ETA charges debtors for administrative costs and penalties, as required under the Debt Collection Act of 1982. The new DOLAR\$ accounts receivable module should be set up to automatically calculate and assess these charges. If ETA believes this is not appropriate for its debts, it should document the rationale under which administrative costs and penalties should not be charged.**

FINDINGS AND RECOMMENDATIONS

Management's Response

ETA management will examine the regulations for imposing administrative fees and penalties. After we identify the requirements to set fees, weigh the probability of collection, and consider the resources needed to administer and manage them, ETA management will formulate a policy addressing the issues raised by the OIG.

OIG's Conclusion

This recommendation is **unresolved** pending OIG receipt and review of a corrective action plan with time frames for completion.

e. Improper Allocations of Receivables

ETA's accounts receivables are based on Final Determinations issued by a Grant or Contract Officer as a result of audit disallowances. The audit reports and resulting questioned costs frequently involve multiple grants/funding periods. Receivables were not recorded in Rbase to the correct grant number and/or funding year in four of the five samples of new FY 1997 receivables that we tested. In three of the four exceptions noted, the Final Determinations or Settlement Agreements did not specify to which grant numbers and funding years the disallowed costs related. In the other exception, the disallowed costs were allocated to several grants in the Final Determination, but were recorded to only one grant in Rbase.

OMB Circular A-123 (revised), Attachment II, Establishing Management Controls states:

Specific management control standards are . . .

1. Recording and Documentation

Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports.

DLMS 6, Chapter 900, *Cash Management*, Section 931 states:

Accounts receivable shall be recorded accurately and promptly. . . .

The Grant/Contracting Officers frequently did not allocate the disallowed costs to the specific grant/contract and funding period. In addition, when they did specify the allocation, the Division of Accounting did not always record the information properly in Rbase.

While ETA has stated its intention to begin using the DOLAR\$ accounts receivable module, this condition will not be resolved by the adoption of the accounts receivable module. This is the result of inadequate procedures.

Recommendation

1. We recommend that the Acting Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that complete information is obtained from the grant officer so that debts are established to the proper grants and funding years. In addition, adjustments should also be recorded against the proper grants and funding years.

Management's Response

ETA management will examine the regulations for imposing administrative fees and penalties. After we identify the requirements to set fees, weigh the probability of collection, and consider the resources needed to administer and manage them, ETA management will formulate a policy addressing the issues raised by the OIG.

OIG's Conclusion

This recommendation remains **unresolved** pending receipt and review of a corrective action plan.

Status of Prior Year Findings and Recommendations

In our FY 1994 audit (OIG Report No. 12-95-004-07-001), we recommended that the Acting Chief Financial Officer:

- *Ensure that departmental policies and procedures are implemented that require the books of account be maintained in accordance with the accounting policies described in the notes to the annual financial statements. Specific action should include incorporating the following items into the Department's routine accounting rather than at year end or for financial statement purposes only:*
 - *Accounting for accounts receivable related to ETA debt management.*

For Fiscal Year 1997, debt management activity continued to be compiled at year end only, at the appropriation level. However, ETA has developed a plan to use the DOLAR\$ accounts receivable module during FY 1998. They plan to post transactions to this module monthly. Therefore, this recommendation is **resolved and open**. Closure is dependent on the implementation of the new system and procedures, and review by OIG.

Management's Response

Based on the discussion at 4.a. Accounting for ETA Debt Management, FFMIA Compliance, ETA management concurs and has no further comment.

OIG's Conclusion

This recommendation remains **resolved and open**. Closure is dependent on the implementation and review by OIG of the new system and procedures.

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FINDINGS AND RECOMMENDATIONS

In FY 1995, ETA closed the Division of Debt Management and divided the responsibilities between the Division of Resolution and Appeals and the Division of Accounting. As a result of this transition, numerous material weaknesses were noted during our audit of the debt management system. During FY 1996, the Division of Accounting began to reconstruct the entire debt collection process and had implemented significant changes. Additional changes were made during FY 1997.

In our FY 1995 audit report (OIG Report No. 12-96-007-13-001), the recommendations were as follows:

- ***We recommended that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that:***

- ***All debt management activity is integrated with the Department's general ledger.***

A subsidiary system, Rbase, is used to record debt collection activity. It does not electronically link to the DOLAR\$ general ledger system. As a result, ETA summarizes the activity at the appropriation level and posts adjustments to the general ledger, at year end only.

In FY 1998, ETA plans to utilize the DOLAR\$ accounts receivable module. Therefore, this recommendation is **resolved and open**, with closure dependent on the implementation of the new system and procedures, and review by OIG.

- ***Erroneous payable balances created in DOLAR\$ due to inappropriate accounting treatment of debt collections in GCMIS are identified and corrected.***

Debt collections are recorded in GCMIS as a reduction in payments to the grantee. Without an equal reduction in costs, erroneous payable balances are created.

ETA has developed a corrective action plan to address this condition during FY 1998. Therefore, this recommendation is **resolved and open**. Closure is dependent on the implementation of the corrective action and review by OIG.

- ***Procedures are established for recording, accounting, and reporting debt management in accordance with Federal accounting principles.***

ETA will begin using the DOLAR\$ accounts receivable module in FY 1998. The use of this module should enable ETA to account for debt activity in accordance with Federal accounting principles. Therefore, this recommendation is **resolved and open**. Closure is dependent on the implementation of the new system and procedures, and review by OIG.

Management's Response

Based on the discussion at 4.a. Accounting for ETA Debt Management, FFMIA Compliance, ETA management concurs and has no further comment.

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OIG's Conclusion

This recommendation remains **resolved and open**. Closure is dependent on the implementation and review by OIG of the new system and procedures.

- *A policy is established for the allocation of settlement outcomes when the allocation is not defined by the settlement agreement.*

This recommendation was previously resolved based upon a plan by ETA to allocate settlement agreements. However, the plan was for the allocation of collections against multiple audits and grants, and not a policy to allocate settlement agreements among multiple audits or grants/funding periods. In addition, the policy to allocate collections to the smallest balance first is not appropriate. Management has not addressed the need for the Grant Officer to allocate settlement agreements or other adjustments to multiple grants/funding periods. Therefore, the status of this recommendation is changed from **resolved and open** to **unresolved**.

Management's Response

ETA management concurs and intends to formulate a policy during FY 1998 to allocate settlement outcomes that are not specifically defined in the settlement agreement.

OIG's Conclusion

This recommendation remains **unresolved** pending receipt and review of a corrective action plan.

- *Procedures are established to ensure that case files are maintained on a current basis and all debt management activity is clearly documented and readily available for examination.*

During FY 1997, the case files reviewed still did not clearly identify the status of each debt. This information was not readily determinable from the subsidiary system either, as that system was only updated on a quarterly basis and was only accessible to one person. During FY 1998, ETA plans to use the DOLAR\$ accounts receivable module, which will provide the current status of each debt and is more accessible. Transactions will be updated monthly. Therefore, this recommendation is **resolved and open**. Closure is dependent on the implementation of the new system and procedures, and review by OIG.

Management's Response

ETA management believes that corrective action already taken should be sufficient to close the recommendation.

OIG's Conclusion

We do not believe that the current status of each debt is readily accessible to the necessary people. Therefore, this recommendation remains **resolved and open**. Closure is dependent on the implementation of the new system and procedures and review by OIG.

5. Accounting for Grants

Current Year Findings and Recommendations

a. Accounting for Job Corps Contracts

ETA's Job Corps invoices are processed for payment through the Electronic Certification System with Treasury and are subsequently recorded in GCMIS as both payment and cost transactions. We identified control weaknesses in ETA's National Office and the Chicago region related to the recording of the cost transactions.

In the National Office, our control tests identified a 29 percent error rate (5 of 17 tested) in the recording of Job Corps cost data. The errors were due to invoices being recorded in the wrong accounting period and a lack of timely recording of the costs into GCMIS. The cause of these errors appears to be a lack of diligence in recording information accurately and timely.

The Chicago region failed to record grant cost data for Job Corps contracts throughout the entire fiscal year. Only 4 cost transactions totaling \$208,175 were recorded, but 384 payment transactions totaling \$69,117,366 occurred in that period. The accounting technician responsible for processing Job Corps' transactions was not aware that she also was to enter the cost information related to these payments. There are no written grants accounting procedures for Job Corps accounting, and there are no control procedures to provide oversight and independent checks of performance related to Job Corps processing.

OMB Circular A-123 (revised), Attachment II, *Establishing Management Controls* states:

Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports.

The *Federal Managers' Financial Integrity Act of 1982* states:

*. . . internal accounting and administrative controls . . . shall provide reasonable assurances that -
(iii) revenues and expenses applicable to agency operations are properly recorded and accounted for. . . .*

The understatement of cost information in GCMIS resulted in grantee advances being overstated in DOLAR\$ (before the year-end accrual process). The resulting overstatement by the Chicago region was approximately \$69,000,000.

Recommendations

We recommend that the Acting Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that:

- 1. The Chicago region establish adequate controls over accounting for Job Corps contracts, including adequate training and oversight.**
- 2. The Division of Accounting record Job Corps cost data accurately and timely.**

Management's Response

APPENDIX A

ETA management recognizes the need for standard written grants accounting policies and procedures. In the coming months, we plan to form a work group of knowledgeable ETA personnel to:

- A. examine present arrangements to receive, record and maintain ETA accounting information;*
- B. identify and discuss statutory and agency requirements that may require changes to current practice to ensure conformance;*
- C. explore new opportunities for collaboration;*
- D. recommend changes to existing policies and procedures;*
- E. develop a comprehensive set of regional accounting policies and procedures; and*
- F. implement a monitoring program to ensure adherence to established policies and procedures by ETA personnel.*

As discussed in 5.a. Accounting for Grants, Accounting for Job Corps Contracts, ETA management plans to form a work group to develop written regional accounting procedures.

OIG's Conclusion

These recommendations are **unresolved**. Resolution is dependent on OIG's review and acceptance of the work plan along with time frames for completion.

b. Grants Accounting Procedures

In recent years, OSHA's National Office and ETA's regional offices have experienced cutbacks and turnovers in grants accounting staff. As a result, we found that the lack of written procedures has hampered the effectiveness and efficiency of the grants accounting function. Development of written procedures has not been a priority in light of other operational demands.

None of the ETA regional offices tested during the audit had a complete set of written grants accounting procedures. This has resulted in "on-the-job training" that is time-consuming, incomplete, or trial-and-error. The regions visited had different staffing dynamics, but in each location the lack of written procedures has resulted in inefficiencies, significant procedural errors, and/or over-dependence on a single individual to ensure the integrity of the operation.

Two factors have contributed to control weaknesses in OSHA's grants accounting operation. The individual responsible for most of the grants accounting functions was on leave for several months during FY 1997. There were no written procedures to ensure that controls were maintained during her absence, and we found no evidence that the necessary reconciliations and other monitoring procedures were performed. In addition, the database system, used by OSHA to assist in the monitoring process, became inoperable.

OMB Circular A-127, *Financial Management Systems*, states:

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Agency financial management systems and processing instructions shall be clearly documented in hard copy. . . . All documentation (software, system operations, user manuals, operating procedures, etc.) shall be kept up-to-date and be readily available for examination.

Recommendations

- 1. We recommend that the Acting Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that the Office of Regional Management (ORM) and the Office of the Comptroller (OC) coordinate the development of standard written grants accounting procedures for use by the regional offices.**

Management's Response

As discussed in 5.a. Accounting for Grants, Accounting for Job Corps Contracts, ETA management plans to form a work group to develop written regional accounting procedures.

OIG's Conclusion

This recommendation is **resolved and open**. Closure is dependent on OIG's review of the proposed written regional accounting procedures and the implementation of the procedures by regional ETA personnel.

- 2. We recommend that the Acting Chief Financial Officer and the Assistant Secretary for Occupational Safety and Health ensure that grants accounting procedures are established and documented.**

Management's Response

OSHA will develop written procedures for grants accounting.

OIG's Conclusion

This recommendation is **resolved and open**. Closure is dependent on OIG's review and acceptance of the proposed written procedures.

c. Migrant/Seasonal Farmworker Report Forms

ETA is using expired grantee reporting forms for the Migrant/Seasonal Farmworker program (Forms ETA 8596, 8597, 8598, 8599). All forms used in the Federal Government must be approved by OMB, and the agency must ensure that the OMB approvals are current. ETA failed to obtain an extension from OMB or to submit a request for reinstatement of approval for these forms.

DOL regulations (29 CFR 97.41 (a)(3)) state:

Grantees shall follow all applicable standard and supplemental Federal Agency instructions approved by OMB to the extent required under the Paperwork Reduction Act of 1980. . . .

ETA cannot require grantees to complete reporting forms that are not OMB approved. Also, OMB will not include reporting requirements for the Migrant/Seasonal Farmworker program in the OMB Circular A-133 *Compliance Supplement*, unless these forms have been approved.

Recommendations

We recommend that the Acting Chief Financial Officer and the Assistant Secretary for Employment and Training:

- 1. Ensure that OMB approval is obtained for Migrant/Seasonal Farmworker reporting forms.**
- 2. Establish procedures to ensure that all forms are approved by OMB and forms expiration dates are monitored for approval.**

Management's Response

ETA management agrees that the Migrant and Seasonal Farm Worker program continued to use several forms beyond the Office of Management and Budget (OMB) expiration date. We believe that this one instance noted by the OIG was an inadvertent administrative oversight rather than a reportable condition in the ETA's system of internal control.

We can assure the OIG that ETA management has no intention of violating OMB rules and regulations as evidenced by the corrective action already taken. In this regard, a package of forms will be sent to the OMB for its approval. We will also review current procedures to identify what else may be needed to ensure that this does not recur in the future.

OIG's Conclusion

The first recommendation is **resolved and open** pending OMB approval of expired grantee reporting forms. The second recommendation is **unresolved** pending our review of management's procedures to ensure all forms in use are approved by OMB.

d. ETA Grant Adjustments

ETA utilizes the adjustment function in GCMIS to correct errors. We found that 23 percent (15 of 66 tested) of the ETA National Office sample of grant cost transactions were adjustments. There were no notations in the grant files to explain the adjustments other than the GCMIS Project Status Reports, which showed that the adjustments had been entered. We requested an explanation of the adjustments, which required ETA to research each one individually. Some were subsequently explained, but others could not be explained.

FINDINGS AND RECOMMENDATIONS

The JFMIP *Core Financial System Requirements* state:

Transaction Control Process

... the Core financial system must:

- *Provide audit trails to trace transactions from source documents, original input, other systems, system-generated transactions, and internal allocation transactions through the system.*
- *Provide transaction details to support account balances.*

There is no policy requiring proper support and authorization for adjustment transactions. As a result, improper or unauthorized cost adjustments could be made.

Recommendation

1. **We recommend that the Acting Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that a policy is established requiring GCMIS adjustments to be adequately supported and authorized.**

Management's Response

ETA management will review the procedures to record cost adjustments in the GCMIS. In the short term, we will consider the resources needed and weigh the cost and benefit to prepare formal supporting documentation in lieu of using the GCMIS to document grant and contract cost information. Based on this assessment, ETA management will formulate a policy that addresses the recording and documentation for costs adjustments. In the longer term, ETA management will consider incorporating system modifications into the overall Year 2000 system conversion and redesign.

OIG's Conclusion

A risk of error exists because adjustments are generally not approved in writing by management nor is there supporting documentation for many of the adjustments. No additional resources are required for authorization and approval of these adjustments. Simply annotating the appropriate GCMIS Project Status Report with a short explanation and obtaining supervisory approval could provide adequate support and authorization for adjustment transactions. This recommendation remains **unresolved**.

Status of Prior Year Findings and Recommendations

ETA Regional HHS/PMS Cash Reconciliations with GCMIS

The FY 1996 audit report (OIG Report No. 12-97-005-13-001) noted that ETA regional offices were not reconciling the HHS/PMS grant payments with GCMIS records monthly. Two recommendations were made. The first recommended that cash reconciliation instructions be reissued to the regional offices. In June 1997 ORM issued instructions to all ETA regional offices on procedures for the reconciliations. As a result, the first recommendation was closed.

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The second recommendation reads:

- *We recommended that the Acting Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that the Office of Regional Management (ORM) and the Office of the Comptroller (OC):*
 - *Follow up to ensure implementation of the reconciliation procedures.*

Three of the four regions visited during FY 1997 audit fieldwork were still not performing monthly reconciliations. Therefore, this recommendation is changed from **resolved and open** to **unresolved**.

Management's Response

ETA Management plans to develop procedures to monitor regional office progress in reconciling cash activity between the U.S. Department of Health and Human Services, Payment Management System and the GCMIS.

OIG's Conclusion

The cash reconciliation procedures were issued on June 10, 1997. Many regions have yet to implement the required reconciliation. ETA's OC is aware at the end of each month which regions are not reconciling, but there has been no followup by the OC or ORM to ensure compliance. Therefore, this recommendation remains **unresolved** pending receipt and acceptance of adequate monitoring procedures.

Accounting for Accrued Costs

During Fiscal Years 1993-1995, four recommendations were made concerning the ETA grants accrual process and the electronic posting of transactions between GCMIS and DOLAR\$. In FY 1993, OIG (OIG Report No. 12-93-016-07-001) recommended that the Chief Financial Officer:

- *Establish grant accounting policies and procedures that include costing estimation requirements for costs incurred but not yet reported by grantees. Those procedures should include periodic reviews of the resulting accruals, to ensure that they represent reasonable estimates of the amounts of unreported costs.*

In addition, OIG reported in FY 1994 (OIG Report No. 12-95-004-07-001):

- *Recommended that the Acting Chief Financial Officer ensure that departmental policies and procedures are implemented that require the books of account be maintained in accordance with the accounting policies described in the notes to the annual financial statements. Specific action should include incorporating the following items into the Department's routine accounting rather than at year end or for financial statement purposes only:*
 - *Refinement of accrued costs for ETA grants and reclassification of grant-related receivables and payables.*

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ETA's Office of the Controller and the OCFO have formed an interagency work group which has proposed a multi-year plan to address these recommendations. ETA has redesigned the GCMIS/DOLAR\$ interface. OIG will review the modified interface to ensure receivables and payables are properly classified in the general ledger. If the modified interface does not adequately resolve these issues, then GCMIS will not be in compliance with the FFMIA. Therefore, these recommendations remain **resolved and open**. Closure is dependent on OIG review of the corrective action implementation.

Management's Response

ETA management concurs and has no further comment.

ETA Grant Closeout Process

In our FY 1996 audit report (OIG Report No. 12-97-005-13-001), we recommended that:

- ***The Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that procedures are established to ensure that the regulatory time requirement for submitting all financial, performance, and other required documents within 90 days after the end of the grant is met by the grantee or contractor and that grants are closed out in a timely manner, i.e., 1 year or less.***

To facilitate compliance with the regulatory requirements, the procedures should include, at a minimum:

- ***A description of the responsibilities for the DOA Closeout Unit, DAA, Office of Job Corps, and ORM, all of which have a part in ETA's grant and contract closeout process.***
- ***A requirement that ORM and the Office of Job Corps monitor the regional office's performance to ensure compliance with the closeout procedures described in ETO No. 1-91 and Job Corps Order No. 86-7.***
- ***A requirement that the DOA Closeout Unit notify the regional offices when the closeout process has been completed, as required under ETO No. 1-91 and Job Corps Order No. 86-7.***
- ***A consistent tracking system that all Closeout Specialists are required to maintain for their assigned cases.***

A corrective action plan was submitted on July 30, 1997. ETA has reduced the backlog of open grants/contracts, from over 500 to less than 300. In addition, they have revised their tracking system and developed status reports for all the closeout specialists. The Division of Accounting has assumed the responsibility for monitoring the regions' compliance with ETO No. 1-91 and Job Corps Order No. 86-7.

However, several areas remain to be corrected:

- ETA has not provided a written description of office responsibilities for the various functions (other than the directives themselves).
- ORM and the Office of Job Corps have not been enforcing the policies.

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- Although the National Office is informing the regions how many grants/contracts are closed, they are not indicating which specific grants/contracts have been closed.
- ETA is still working on a new tracking system and is shifting some of the tracking responsibility from the closeout specialists to the Team Leader.
- There is still a backlog of old grants/contracts that have not been closed out, although this number is reduced.
- The Division of Accounting is still not being notified timely of the National Office grants and contracts which need to be closed.

As a result of these conditions, this recommendation remains **resolved and open**. Closure is dependent on the completion of the implementation of corrective actions and review by OIG.

Management's Response

ETA management concurs and has no further comment.

Timeliness of Recording Grants Cost Data

In the past, we have noted that ETA has not recorded grantee and contractor costs on a timely basis. The OIG audit report in FY 1995 (OIG Report No. 12-96-007-13-001):

- ***Recommended that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that the Division of Accounting records grantee and contractor cost reports timely.***

In FY 1997, we found that 70 percent (32 of 46 tested) of the cost reports tested, excluding Job Corps contracts, in ETA's National Office were still not being recorded timely. The primary reasons for this continued problem appear to be: 1) lack of timely receipt from grantees, 2) lack of timely receipt by the National Office Division of Accounting from the Federal Representatives, and 3) lack of adequate monitoring of cost recording. Therefore, this recommendation remains **resolved and open**. Closure is dependent on OIG receipt and review of the work plan along with time frames for completion.

Management's Response

ETA management is concerned with delinquent cost reporting by some grantees. The ETA, OC, in cooperation with the Office of Grants and Contracts Management and ETA program offices, will review present procedures to process cost reports received by ETA; identify grantees with chronic delinquent reporting; and recommend appropriate actions to address timely reporting by grantees. ETA management will issue a policy to address the OIG's recommendation after weighing several alternatives, including designating grantees that fail to report timely as high risk and making payments to them on a reimbursement basis rather than on an advance basis.

OIG's Conclusion

This recommendation was made 3 years ago and in spite of proposed corrective action by ETA, there has been no significant improvement in the error rates in receipt and timely recording of cost data. The ETA Office of Grants and Contract Management is responsible for ensuring timely cost report submission by grantees. ETA Division of Accounting is responsible for ensuring cost reports are entered timely when received and for following up

with OGCM when delinquent reports are identified. These internal procedures also do not appear to be functioning properly. Because ETA has made no significant progress in addressing this issue, the status of this recommendation is changed from **resolved and open** to **unresolved**.

6. Fines and Penalties

Current Year Findings and Recommendations

a. Noncompliance with Federal Financial Management Improvement Act of 1996

We found the Assessment Database Management System (ADBMS) used by the Mine Safety and Health Administration (MSHA) and the Integrated Management Information System (IMIS) used by the Occupational Safety and Health Administration (OSHA) to track proposed assessments and civil penalties levied against mine operators and/or employers for violating the respective Federal Acts do not substantially comply with the Federal Financial Management Improvement Act of 1996 (FFMIA).

FFMIA requires each agency to implement and maintain financial management systems that comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In the *Implementation Guidance for the Federal Financial Management Improvement Act of 1996*, OMB establishes OMB Circular A-127 and Joint Financial Management Improvement Program (JFMIP) documents as sources of established Federal requirements for financial management systems.

OMB Circular A-127 requires that financial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public. In addition, Circular A-127 requires application of the SGL at the transaction level. Compliance with this standard requires that all reports produced by the systems be able to provide financial data that can be traced directly to the SGL accounts, and transaction detail supporting SGL accounts be readily available in the financial management systems and directly traceable to specific SGL account codes.

JFMIP, *Core Financial System Requirements* requires easy reconciliations between subsidiary financial management systems and the core general ledger system, DOLAR\$. In addition, JFMIP requires that Federal financial management systems provide a complete audit trail. To support this activity, financial management systems must provide audit trails to trace transactions from source documents, original input, other systems, system-generated transactions, and internal allocation transactions through the system and provide transaction details to support account balances.

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ADBMS and IMIS do not meet the Federal financial management system requirement and the U.S. Government Standard General Ledger requirement of FFMIA because:

- Easy reconciliations between the system and summarized transaction activity recorded in DOLAR\$ are not maintained.
- Complete and adequate audit trails to trace transactions from source documents through the entire integrated financial management system are not available.
- The system cannot efficiently and effectively provide complete, timely, reliable and consistent information.
- Transaction detail supporting SGL accounts is not readily available and directly traceable to specific SGL account codes.
- Reports produced by the system do not provide financial data that can be directly traced to the SGL accounts.

Specifically, ADBMS does not have the ability to:

- Produce transaction level detail reports that support revenue recorded to DOLAR\$. Revenue and adjustments to revenue are estimated based upon the ending accounts receivable balance.
- Provide easily available transaction level detail supporting writeoffs and collections. Ad hoc queries must be used to obtain transaction level detail support. In addition, the detail from the ad hoc reports is not easily reconcilable to balances maintained in DOLAR\$.
- Provide a complete and adequate audit trail for balances and summarized transaction activity recorded to DOLAR\$. Since revenues and adjustments must be estimated, audit trails for revenue and accounts receivable balances maintained in DOLAR\$ are not readily available.

Specifically, IMIS does not have the ability to:

- Produce transaction level detail reports that support revenue recorded to DOLAR\$. Revenue and adjustments to revenue are estimated based upon the ending accounts receivable balance. In addition, transaction level detail to support revenue and adjustments to revenue is provided by subtracting prior period ending cumulative penalty assessments from current period ending cumulative penalty assessments. This process does not provide an adequate or easily reconcilable audit trail for revenue.
- Produce transaction level detail reports that support writeoffs recorded to DOLAR\$. Writeoffs are estimated by subtracting prior period ending cumulative writeoffs from current period ending cumulative writeoffs. This process does not provide an adequate or easily reconcilable audit trail for writeoffs.
- Produce transaction level detail reports that support accounts receivable collections recorded in DOLAR\$ and IMIS. Collections for the period are determined by subtracting prior period ending cumulative collections from current period ending

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cumulative collections. In addition, cumulative ending FY 1996 collections reported for the FY 1996 financial statement audit differ from cumulative FY 1996 collections reported for the FY 1997 financial statement audit. This process does not provide an adequate or easily reconcilable audit trail for collections.

- Provide a complete and adequate audit trail for balances and summarized transaction activity recorded to DOLAR\$.
- Provide easy reconciliations between IMIS balances and summarized transaction activity recorded to DOLAR\$.

Recommendation

1. **The Acting Chief Financial Officer and the Assistant Secretaries for MSHA and OSHA should provide a recommended remedial action plan and the time frames to implement such actions and should ensure that their financial management systems meet the FFMIA requirements, by providing:**

- **easily reconcilable, timely, complete, consistent and reliable SGL transaction level detail to support balances and summarized transaction activity recorded to DOLAR\$; and**
- **a complete audit trail in compliance with the requirements of OMB Circular A-127 and JFMIP.**

Management's Response

MSHA

MSHA agrees that the ADBMS needs improvement to provide the necessary transaction level detail and, an electronic link to DOLAR\$ would provide a complete audit trail. In response to a prior recommendation to electronically link the ADBMS to DOLAR\$ and to improve the system to provide transaction level detail to support billings, collections, writeoffs, accrued interest, administrative fees, and other adjustments, MSHA prepared the following schedule of corrective actions to bring the system in compliance with OMB Circular A-127. The plan has been implemented and the first two major milestones have been completed:

Meet with CFO to define data requirements. Completed July 1997.

Submit work request for programing to Information Resource Center (IRC). Completed January 1998.

Conduct project analysis, define program specifics and develop and implement a program to create a data file to be transmitted to the DOLAR\$ system. Estimated completion September 1999.

OSHA

During FY 1997, OSHA intensified its efforts to bring its Integrated Management Information System (IMIS) to an acceptable financial subsystem for reporting purposes. Among OSHA's accomplishments were:

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Posted monthly activity from the IMIS to the core accounting system, DOLAR\$;

Generated detail report listings by inspection number that reconciled to and supported IMIS activity used for posting. These detail report listings were produced for new receivables, collections and write-offs, which represent the three components of accounts receivable activity;

Prepared monthly reconciliations between the IMIS and the DOLAR\$ general ledger for the balances in accounts receivable and allowance for loss on accounts receivable;

Produced a trial balance of accounts receivable that reconciles to the accounts receivable balance in the IMIS summary report and the DOLAR\$ general ledger balances. The report's design serves additional functions, as it also categorizes the accounts receivable by delinquency aging categories and classifies the balances according to principal, interest, administrative and late fees.

Additionally, OSHA has internal controls in place for cash management via an automated system that is used to reconcile and monitor the cash deposited to the bank lockbox (and subsequently posted to Treasury and DOLAR\$) with the cash recorded in the IMIS on a daily basis.

OSHA believes it has substantially complied with the FFMIA, with the following exceptions:

OSHA has elected to post its collections to the DOLAR\$ general ledger based on the receipt of a certificate of deposit notification from the bank lockbox. Accounting standards would have the cash posted to DOLAR\$ when received and recorded in the IMIS. While not completely in compliance with accounting standards, OSHA contends that its current process is a more efficient and effective method of recording and reconciling cash with Treasury. Given our system for controlling and reconciling daily cash deposits, the agency maintains that the primary objective of accounting, recording and depositing all collections is being met.

OSHA also records its revenue on a modified accrual basis that is not in compliance with accounting standards. This is a result of the method for recording collections.

One of the purposes of the FFMIA, as stated in its legislation, is to "improve performance, productivity and efficiency of Federal Government financial management." OSHA seeks to comply with the regulations of the FFMIA, but also factors in consideration of costs incurred versus benefits derived.

As stated in the past, the IMIS was developed as an administrative system to allow the agency to record, process, monitor and report the activities and events of its compliance, enforcement and assessment programs. OSHA has used the existing data and, through continuous programming modifications, has produced reports that provide accounting information to be recorded into the departmental accounting system. OSHA has determined that it is not cost justifiable to develop a separate accounts receivable subsystem, increase personnel in its 80+ area offices to handle the additional functions, and retrain personnel in the operational processes needed to fully comply with the accounting and financial reporting requirements.

OIG's Conclusion

MSHA

Based upon management's response, this recommendation is **resolved and open**. Closure is dependent on our review of the effectiveness of management's corrective action plan.

OSHA

Based upon management's response, this recommendation is **unresolved**. OIG acknowledges that OSHA made significant improvements to IMIS during FY 1997. However, the system still does not provide an adequate transaction level detail audit trail in compliance with the requirements of FFMIA.

Status of Prior Year Findings and Recommendations

Financial Management Systems

We found the financial management information systems used by the Mine Safety and Health Administration (MSHA), the Occupational Safety and Health Administration (OSHA) and the Pension and Welfare Benefits Administration (PWBA) to track proposed assessments and civil penalties levied against employers and/or operators for violating the respective Federal Acts do not adhere to OMB Circular A-127 (Revised), *Financial Management Systems* as it relates to EDP systems. Transaction level detail to support billings, collections, writeoffs, accrued interest, administrative fees and other adjustments which occur during the fiscal year are not available in ADBMS or IMIS.

We made the following recommendations in our FY 1996 audit (Report No. 12-97-005-13-001):

- ***We recommended the Chief Financial Officer and the Assistant Secretaries for MSHA, OSHA, and PWBA, ensure that EDP systems used are linked electronically to DOLAR\$ and are able to provide transaction level detail to support billings, collections, writeoffs, accrued interest, administrative fees, and other adjustments in compliance with OMB Circular A-127.***

MSHA, OSHA, and PWBA have implemented changes to their various EDP systems that now allow monthly posting of their financial data to the Department's DOLAR\$ system. However, this recommendation remains **unresolved** since IMIS and ADBMS cannot provide transaction level detail in compliance with the requirements of OMB Circular A-127.

Management's Response

See above responses which address MSHA's ADBMS and OSHA's IMIS systems.

OIG's Conclusion

This recommendation is **resolved and open** as it pertains to MSHA and **unresolved** as it pertains to OSHA. See above conclusions which address MSHA's ADBMS and OSHA's IMIS systems.

Mine Safety and Health Administration

Debt Management Deficiencies

We found the Civil Penalties and Compliance Office (CPCO), Special Collections Division pursues the largest debts aggressively; however, other debts are not pursued fully. The ADBMS does not have the capability to automatically produce all the demand letters and reports desired by the Special Collection staff; therefore, many collection procedures are performed manually.

- ***We recommended the Assistant Secretary, MSHA, ensure reports in ADBMS are developed which will automate the appropriate debt collection procedures and departmental debt collection guidelines are met.***

Based on management's response, this recommendation is **resolved and open**. Two new FTEs have been added to MSHA-CPCO for FY 1998, and ADBMS debt management reports are under development. Closure is dependent on our review of the effectiveness of the ADBMS reports.

Management's Response

No additional comments.

Interest and Administrative Fees Receivable

We found the ADBMS does not have the capability to produce a report that computes and reports interest and administrative fees on all outstanding unpaid violations. Therefore, MSHA is recording interest and administrative fees on a cash collected basis into the DOLAR\$ general ledger, rather than on an accrual basis.

- ***We recommended the Assistant Secretary, MSHA, ensure an ADBMS report which will compute and report the interest and administrative fees on all outstanding unpaid violations be developed.***

This recommendation is **resolved and open** based upon management's corrective action plan. ADBMS reports are under development. Closure is dependent on our review of the effectiveness of the ADBMS reports.

Management's Response

No additional comments.

7. Property and Equipment

Current Year Findings and Recommendations

a. FFMIA Compliance

The *Federal Financial Management Improvement Act of 1996* (FFMIA) was effective beginning in FY 1997. FFMIA requires that each agency implement and maintain financial management systems that comply substantially with (1) Federal financial management systems requirements as outlined in OMB Circular A-127 and the Joint Financial Management Improvement Program (JFMIP) *Core Financial System Requirements*, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (SGL). The Job Corps real and personal property systems are not in substantial compliance with FFMIA in that the systems do not process financial information effectively and efficiently and do not provide, timely, reliable and consistent information. The issues concerning Job Corps property systems were reported in numerous prior OIG audit reports dating back to FY 1991 as described in the status of prior years findings and recommendations that follows this finding.

Federal Financial Management Systems

OMB Circular A-127 (Revised), Financial Management Systems and JFMIP, require that Financial Management Systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public. According to JFMIP, this includes the ability to provide a complete audit trail to trace transactions from source documents, or original input through the system and that transactions are handled consistently and controlled properly to provide reasonable assurance that the recording, processing, and reporting of financial data are properly performed and that the completeness and accuracy of authorized transactions are ensured. The Job Corps real and personal property systems do not meet these requirements for the following reasons:

1. The real property subsidiary ledger for buildings, improvements and their related depreciation accounts which are used to support the DOLAR\$ general ledger are compiled on manual spreadsheets and are updated and recorded in the general ledger at year end only.
2. The personal property which is recorded in the Contractor Property Management System (CPMS) is the subsidiary ledger for the DOLAR\$ general ledger personal property account. Using the information from the CPMS system, the general ledger is posted at year end only. In addition, the detail transactions supporting the changes to property are reflected on the CPMS system; however, these transactions cannot be reconciled to the GCMIS system which records all Job Corps Center cost activity nor can they be reconciled with the ETA 2110 which is the Job Corps Center Cost Report (the official record of expenditure.) The reason for the inability to reconcile is the lag between recording information in the financial system and the property system. The

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lag can be between 30 to 60 days. This lag period also causes the CPMS system to not reflect the activity timely and within the proper fiscal year.

Federal Accounting Standards

FFMIA requires that the financial management system produce financial information that is in compliance with financial accounting standards which are used in the preparation of financial statements.

1. The CPMS personal property subsidiary ledger does not function as an adequate subsidiary systems to the general ledger because the detail transactions recorded in the general ledger can not be reconciled to the GCMIS cost reporting system and to the Job Corps center cost report shown on ETA 2110.

United States Government Standard General Ledger

FFMIA requires that the financial management system produce financial information that is in compliance with the U.S. Government Standard General Ledger (SGL). The Job Corps personal property system does not substantially meet these requirements, as follows:

1. The CPMS does not function as an adequate subsidiary to the DOLARS general ledger control accounts because the subsidiary systems are not reconcilable to the GCMIS or ETA 2110 cost reports, nor is the CPMS complete (as described above.) For the reasons listed above, we contend that the existing systems do not provide adequate controls and safeguards over Job Corps real and personal property, and that enhanced and integrated systems would improve the accountability of such assets with increased efficiency.

Recommendations

The Acting Chief Financial Officer and the Assistant Secretary of Employment and Training should provide a recommended remedial action plan and the time frames to implement such actions, and should ensure that a corrective action plan is developed and implemented to meet the FFMIA requirements, as follows:

Federal Financial Management Systems

1. **Implement an integrated property system for Job Corps real and personal property, which records all the essential elements necessary for an accurate and complete accounting of Job Corps real and personal property.**
2. **The Job Corps real and personal property systems should be recorded to the general ledger on a monthly basis.**
3. **The ETA 2110 should be reconciled to the GCMIS.**

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Financial Accounting Standards

4. **The GCMIS should be reconciled to the CPMS. Identify and capitalize all major VST projects meeting the Department's capitalization criteria, or provide credible evidence that there are no such projects.**

U.S. Government Standard General Ledger

5. **The Job Corps real and personal property subsidiary systems used to support DOLAR\$ general ledger accounts should:**
 - **Provide a complete and accurate report of the items comprising the ending balance in the general ledger accounts.**
 - **Provide a complete and accurate report of the source transactions which comprise the general ledger balance, thus providing an audit trail.**

Management's Response

As the OIG knows, the recent change in the electronic interface between the GCMIS and DOLAR\$ enables the ETA to employ DOLAR\$ capabilities to address new and changing accounting requirements. Currently, the ETA/OFCO work group is exploring the feasibility of deploying the Capitalized Asset Tracking and Recording System (CATARS) to address the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) as well as OIG recommendations. While the work group is optimistic that the CATARS may offer the best solution, study is ongoing and no final decision has been made at this time. A recommendation will likely go forward in March along with a work plan for implementation. Upon approval, the work group will share its plan with the OIG.

OIG's Conclusion

We are pleased at the progress made to date by ETA and the work group and we continue to support this ongoing effort. These recommendations remain **unresolved** until after the work group's efforts are completed and we review the work group recommendations.

Status of Prior Year Findings and Recommendations

Job Corps Real and Personal Property

In past years, we reported numerous issues related to ETA's accounting of the Job Corps Program's real and personal property. In general, the OIG's position is that the systems used by ETA to account for real and personal property are insufficient. They are manual spreadsheets, which are: 1) not integrated with the Department's general ledger, 2) updated and recorded in the general ledger at year end only, 3) not reconcilable to the ETA 2110 cost reports (the official record of expenditure) submitted by Job Corps contractors, and 4) heavily dependent on outside contractors. There are currently seven open recommendations, from three OIG audit reports, all related to establishing an integrated property system for Job Corps real and personal property.

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In our FY 1995 audit report (OIG report No. 12-96-007-13-001), we made the latest recommendation concerning the outstanding issues related to Job Corps real and personal property:

- ***We recommended that the Chief Financial Officer and the Assistant Secretary for Employment and Training:***
 - ***Establish an integrated property system for Job Corps real and personal property, which records all the essential elements necessary for an accurate and complete accounting of property acquisitions, dispositions, and related depreciation.***

In response to the OIG's concerns, the Acting Chief Financial Officer and the Deputy Comptroller, ETA, established a DOLAR\$\GCMIS interagency work group to develop a multi-year plan to guide systems development activities. One of the primary development activities of the work group includes the accounting for Job Corps Property. In the interim, ETA has undertaken steps to develop detailed real property records and allocate costs among buildings at each Job Corps center.

The OIG is pleased with management's actions to address this long-standing issue. However, the seven open recommendations related to Job Corps real and personal property remain **unresolved** pending receipt and review of the interagency workgroup's Job Corps multi-year work plan.

Management's Response

As discussed in 7.a. Property and Equipment, FFMIA Compliance, the ETA/OCFO work group will make recommendations and prepare a work plan to address the OIG's concerns.

OIG's Conclusion

This recommendation remains **unresolved** pending receipt and review of the work group's Job Corps multi-year plan.

SESA Real Property

In prior years, we reported that ETA did not maintain sufficient accountability over real property purchased with SESA grant funds in which the Department maintains a reversionary interest. In our FY 1995 audit (OIG Report No. 12-96-007-13-001), we reported that ETA, again, could not provide current records of SESA real property. ETA personnel were not able to provide an inventory of state SESA property or determine if states had conducted required annual certifications of SESA property. In a recent OIG audit report prepared by the Dallas Office of Audit (OIG Report No. 06-97-056-03-325), they reported findings similar to our FY 1995 report.

An adequate accounting of SESA real property is necessary to ensure that the Department's equity in such assets is adequately protected, and that proper compensation would be made to the Department when SESA property was no longer used for DOL-related purposes.

FINDINGS AND RECOMMENDATIONS

- ***We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that:***
 - ***Regional offices and other responsible parties follow established procedures for accounting for SESA real property.***
 - ***Inventory of SESA real property is expeditiously brought up-to-date.***
 - ***State certifications of SESA real property are obtained as required by ETA policy.***

The ETA issued a directive to ensure that responsible parties follow established procedures for accounting for SESA real property. The ETA is currently in the process of updating the SESA real property inventory list using, as a base, the list of SESA real property compiled by the OIG during the most recent audit. In addition, ETA plans on obtaining state certifications during FY 1998.

The three SESA real property recommendations remain **resolved and open**. Closure is dependent on completion of the SESA real property inventory and receipt of state certifications.

Management's Response

ETA management concurs and has no further comment.

EDP System Capitalization Costs

During our FY 1996 audit (OIG Report No. 12-97-005-13-001), OIG became aware of an EDP system under development in the Employment Standards Administration (ESA). This system was developed to assist in tracking the Civil monetary penalties (CMP) collections within Wage and Hour. EDP systems under development which meet the Department's capitalization threshold should be recorded in CATARS, and depreciated when completed and operational. However, ESA neither recorded nor depreciated this system in the Department's property system.

The contractor responsible for the system was not tasked to separate out costs associated specifically with the CMP system development. As a result, ESA was unable to provide OIG information concerning the cost of the development of the CMP prototype system.

The Office of the Chief Financial Officer (OCFO) provides guidance to agencies to assure proper capitalization of EDP system development. However, based on our finding, the OCFO needs to continue to work with individual agencies to assure that agencies follow the departmental capitalization procedures.

- ***We recommended that the Chief Financial Officer ensure:***
 - ***adherence to the departmental capitalization policy by identifying systems under development at the monthly CAMO meetings and work with the agencies, in which systems development is identified, to ensure that costs are identified and capitalized in CATARS.***

The OCFO concurred with the OIG recommendation and agreed to continue to work with agencies to provide guidance and technical assistance in identifying capitalized costs associated with EDP system's development. The Wage and Hour is in the process of reconstructing costs associated with the CMP system development, which will be used to capitalize the system in CATARS.

This recommendation remains **resolved and open**. Closure will depend on completion of the costs identification process and the costs are capitalized in CATARS.

Management's Response

ESA, Wage Hour Division and the OCFO are working together to record the reconstruct costs associated with the development of the Civil Monetary Penalties System into CATARS. Cost will be recorded in the CATARS during FY 1998.

OIG's Conclusion

OIG has no further comment.

8. FECA Program

Status of Prior Year Findings and Recommendations

Chargeback Accounting

In our FY 1994 audit (OIG Report No. 12-95-004-07-001), FY 1995 audit (OIG Report No. 12-96-007-13-001), and FY 1996 audit (OIG Report No. 12-97-005-13-001), we noted that the OWCP Summary Chargeback Billing List (DV1PCB40, chargeable and DV1PCB40NC, non-chargeable) and the Statement of Transactions (SF 224) were not reconciled, requiring an adjustment of approximately \$11 million at September 30, 1994; \$11 million at September 30, 1995; and \$9 million at September 30, 1996. We made the following recommendations to the Chief Financial Officer.

- *We recommended the Chief Financial Officer ensure that written procedures are implemented for:*
 - *The timely posting of data in the district offices to the Chargeback and Fund Control Systems.*
 - *Management monitoring of the data posted by the district offices by the production of monthly reports that compare district office Fund Control System and Chargeback system data for check cancellations and cash receipts.*

ESA developed a corrective action plan that is in progress. ESA previously acknowledged the large variance between the data in the chargeback reports and the SF-224 reports that had accumulated over several years as of September 30, 1995. Adherence to input policies and procedures at the district office level during FY 1996 and FY 1997 decreased this variance significantly as of September 30, 1996 and 1997. The variance is now \$3 million.

Management stated that during FY 1997, a FECA bulletin would be issued with actions designed to monitor this information at the district offices. Management did add an item in the

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accountability standard for timeliness of recording credits to the chargeback system in FY 1997. Accountability reviews were conducted at the district offices by management on a biannual basis. However, management has not developed a monthly report comparing the district office Fund Control System and Chargeback System data for check cancellations and cash receipts or issued a FECA bulletin in regard to monitoring.

These recommendations are **resolved and open**. In order to close these recommendations, ESA needs to issue a FECA Bulletin to the district offices implementing monthly monitoring procedures to ensure that the district office Fund Control System can be reconciled to Chargeback System and eliminate the unlocated variance.

Management's Response

Recognizing the variance between the Chargeback reports and the SF-224 reports, FEC was able to significantly decrease the variance over the 1996 and 1997 fiscal years. FECA Bulletin 97-6, which was designed to further advance our efforts and enforce the requirement of timely updates of the system, was issued on January 30, 1997. The FEC National Office is monitoring the individual plans submitted by district offices, in accordance with the bulletin. There will be a special emphasis on reviewing the plans for the third and fourth quarters of fiscal year 1998. In addition, there are six National Office Accountability Reviews and management reviews in the other six district offices during FY 1998. During these reviews, each office will be evaluated on the timely posting of data to the Fund Control and Chargeback System, and corrective actions required if these postings are not timely.

OIG's Conclusion

The recommendation remains **resolved and open**. FECA Bulletin 97-6 only requires timely posting of cash receipts and canceled checks received through June 15 to ensure posting prior to the chargeback report preparation. However, FEC has not stressed the timely monthly posting of all cash receipts and canceled checks including at the fiscal year end. Management has agreed to emphasize timely posting during the third and fourth quarter of FY 1998 and during accountability and management reviews. Closure is dependent on the results of FEC actions taken. The actions taken will be reviewed during the 1998 audit.

Continuing Eligibility - SSA Earnings Confirmation

In our FY 1995 audit (OIG Report No. 12-96-007-13-001) and FY 1996 audit (OIG Report 12-97-005-13-001), it was noted that claimant files did not always contain updated earnings statements from the Social Security Administration. We made the following recommendation:

- ***We recommended that the Chief Financial Officer and the Assistant Secretary for Employment Standards ensure adherence to policies regarding file maintenance, and request wage information from the SSA every 3 years for claimants on the periodic roll to determine continuing eligibility for compensation.***

We continued to note this condition in our FY 1997 audit. SSA earnings statements are used to compare to the earnings information provided by the claimants on Form CA-1032. In order for the claims examiner to request an earnings statement from the SSA, a signed release from the claimant (Form CA-1036, *Request for Earnings Confirmation*) must be obtained for each

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request. Earnings statements are required for claimants who have been on the periodic roll for more than 3 years.

Our current audit disclosed:

- In 4 of 25 cases, authorization to obtain earnings history reports from the SSA were not obtained.
- In 2 of 17 cases, verifications of earnings were not requested from the SSA, once authorization had been obtained from the claimant.

OIG recognizes ESA is working to develop an alternative method of obtaining earnings verification from SSA in an automated format. OIG fully supports these efforts. However, this method may take years to fully implement and does not relieve ESA from their ongoing responsibility to follow existing procedures until the new system is operational.

The recommendation remains **unresolved**. Resolution of this finding will require legislative change, a change to the FECA procedure manual, or a change in the procedures performed at the district offices.

Management's Response

The current audit revealed that in 4 of 25 cases sampled FEC did not obtain authorization for release of the earnings information for the SSA when it was appropriate to do so. It additionally revealed that in 2 of 17 cases where authorization had been obtained, the FEC did not request verification of claimant's earnings from the SSA. In the case of obtaining authorization from the claimant your findings represent a 16% error rate or an 84% success rate. In the area of verifying earnings once authorized to do so, your findings indicate roughly an 12% error rate or an 88% success rate. However, you continue this recommendation as unresolved. The first finding represents an improvement of 15% compared to last year's finding, reflecting OWCP's efforts to address this issue.

We continue to seek other, more effective and efficient, methods of verifying the earnings of claimants on the periodic roll. However, we maintain that the success rates reflected above should not evoke concern regarding the adequacy of the FECA procedures on this issue or the manner in which they are followed by the field offices. In all instances where exceptions in this area are brought to our attention, we will follow up with appropriate corrective action to ensure that the appropriate request letters are sent out. Where applicable, we will suspend benefits of those individuals who do not respond.

OIG's Conclusion

The recommendation remains **unresolved**. Management has agreed to continue to seek more effective and efficient means of verifying wages. The proposed regulations which enable OWCP to compare claimant's wages with state worker's compensation administrations may provide OWCP with a more effective method of verifying wage information. We continue to assert that lack of documentation for 12 percent to 16 percent of the population for our sampling period is significant and warrants additional efforts to resolve.

Medical Bill Payment System (BPS)

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In our FY 1996 audit (OIG Report No. 12-97-005-13-001), we noted various medical bill payments errors attributed to medical bills being keyed inaccurately, bypass codes being improperly utilized by district offices, and procedure code modifiers being entered into the system improperly.

- ***We recommended that the Chief Financial Officer and the Assistant Secretary for Employment Standards:***
 - ***Emphasize to bill pay clerks the control procedures outlined in the FECA Procedure Manual regarding the use of proper bypass codes.***

OIG resolved this recommendation with closure dependent the effectiveness of the training of data entry personnel and bill resolvers. Training of data entry clerks did not significantly affect the results of our audit tests. We continued to note errors in regard to bypass codes during our current audit.

The following overpayments were detected in our sample of 290 statistically selected medical bill payments, 945 non-statistically selected potential duplicate payments, and 13 high dollar medical payments.

194 bypass code errors	\$ 376,273
9 procedure code modifier errors	<u>10,716</u>
	<u>\$ 386,989</u>

BPS bypass codes continued to be improperly utilized by district offices. In our sample of 290 medical bills, we noted 5 instances where a bypass code was improperly used to pay the medical bills. Furthermore, our sampling of duplicate payments revealed an additional 189 instances.

<u>Number of Errors</u>	<u>District Office</u>
9	02 - New York
5	03 - Philadelphia
33	06 - Jacksonville
3	09 - Cleveland
32	11 - Kansas City
1	12 - Denver
19	13 - San Francisco
82	25 - Washington, D.C.
<u>10</u>	50 - Washington, D.C.
<u>194</u>	

Each of these previously paid medical bills was reentered by a bill pay clerk. The medical bill was then rejected by the BPS edit functions as being a possible duplicate payment. The bill resolver (BR) then used a bypass code of "2" or "3" to process the duplicate payment.

The status of this recommendation is changed from **resolved and open** to **unresolved**. In order to resolve this recommendation, ESA should assure that bill pay clerks adhere to the procedures outlined in the FECA Procedure Manual.

Management's Response

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We continue to be concerned about the improper use of bypass codes by our data entry personnel and bill resolvers. We recognize that whatever remedial measures we have taken over the past year have not accomplished the desired end of using a bypass code only when it is appropriate. Because of the lack of improvement, OWCP will redouble its efforts to ensure proper use of bypass codes doing FY 1998. First, we will need to focus upon the problem more closely. A new bulletin will be issued reemphasizing the requirement for careful supervisory sampling of bills, and initiating a reporting requirement to ensure better compliance. This bulletin will touch upon all identified sources of bill payment errors, whether they are due to data entry or due to deficiencies in the bill resolution process. The FEC District Directors are currently being sent a quarterly report on the use of bypass codes, to make them aware of the extent to which the three bypass codes are being used in their respective offices. The National Office will also monitor these reports to identify offices which are not improving. Finally, the Accountability Review process has been revised to enhance the level of scrutiny applied to bill pay quality.

OIG's Conclusion

This recommendation remains **unresolved**. Closure is dependent on the effectiveness of the FECA Bulletin and the actions taken by management. The actions taken will be reviewed during the 1998 audit.

- ***Emphasize to bill pay clerks that procedure codes, including modifiers, must be correctly entered in the BPS.***

OIG resolved this recommendation with closure dependent on completion of ESA changing the BPS edit functions to suspend bills when they are virtually identical and the improvement of keying errors by data entry personnel in regards to the accuracy of procedure codes, including modifiers, entered into the BPS. ESA did not make the change to the BPS edit system. Training of data entry clerks did not significantly affect the results of our audit tests.

We continued to note errors in regard to procedure codes, including modifiers during our current year audit. The following overpayments were detected in our sample of 290 statistically selected medical bill payments, 945 non-statistically selected potential duplicate payments and 13 high dollar medical payments.

96 keying errors	\$ 77,973
5 provider keying errors	24,652
2 fee schedule appeal keying errors	<u>5,440</u>
	<u>\$ 108,065</u>

Medical bills continued to be inaccurately keyed into the BPS (e.g., incorrect procedure codes and incorrect service dates). Additionally, medical bills were submitted by medical providers more than once (duplicate billing) on different forms or with varied coding or information. Due to the limitations of the BPS, medical bills keyed inaccurately or with differing information will not be subjected to the edit functions and, therefore, not detected by the BPS. In our sample of 290 medical bills, we noted 34 instances where inaccurate information was keyed into the BPS system. Furthermore, our sampling of duplicate payments revealed an additional 69 instances.

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BPS procedure code modifiers continued to be entered into the system improperly. Our sampling of duplicate payments revealed nine instances where a procedure code modifier was either keyed incorrectly or not keyed at all.

The edit functions used by the BPS are limited to identifying potential duplicate payments for those items for which certain fields are the same. When the data entry clerks do not accurately key the information on the medical bills into the system or duplicate bills with different information are submitted by the medical provider, the BPS edit function does not identify them as potential duplicate payments.

FECA implemented or started collection procedures on all of the duplicated payments we noted.

The status of this recommendation is changed from **resolved and open** to **unresolved**. In order to resolve this recommendation, ESA should implement a system that includes extensive training of data entry clerks to assure the accurate keying of data into BPS.

Management's Response

It is agreed that we must stress the importance of accuracy in data entry in the bill payment process. In this regard, the development of a computer-based training package to be utilized by data entry personnel is currently under way. We expect to be fully engaged in administering the training to all of the field employees involved in the keying aspect of bill processing by June 1998. We hope to effectively use this computer based training as a deterrent to many of the commonly observed keying errors, such as incorrect dates of service and missing or incorrect CPT codes and modifiers. We remain determined to reduce data entry keying errors, especially those which result in overpayments to medical providers. This issue will become even more important should our proposed regulations expanding the medical fee schedule be implemented. The computer based training which is being developed for data entry personnel will thoroughly address CPT codes and code modifiers. A goal will be set for the date by which all bill processing staff will be trained, and subsequent to that date the post-payment bill sampling process will emphasize our commitment to resolving this problem. Again, the draft bulletin, which supersedes FECA Bulletin 94-10, will be the tool for monitoring our progress.

OIG's Conclusion

This recommendation remains **unresolved**. Closure is dependent on a review of the training program to be implemented, the actions taken, and the results of our review during the 1998 audit.

- *Establish a periodic, subsequent review process by management of the Medical Bill Processing System at each FECA district office that utilizes information currently contained in the BPS. The periodic review process should include reviewing medical bills subsequent to payment that contain the same case file number, payee identification number and dates of service above a minimum specified dollar amount (the minimum should be \$1000 or less).*

OIG resolved this recommendation based on ESA's establishing an alternative corrective action that included a monthly sampling review process and modifications to the accountability review process. However, we continued to note significant duplicate payments totaling \$495,054. Therefore, the status of this recommendation is changed from **resolved and open** to **unresolved**. In order to resolve this recommendation, ESA should establish procedures for the subsequent review of all medical bills above a minimum specified dollar limit (\$1,000 or less).

Management's Response

We continue to feel that a full post-payment review process such as you have described would present an unmanageable workload for our field office personnel. Based on the criteria you have identified, the offices would be required to sample hundreds of bills per month. However, we propose alternative criteria for a post-payment review. This would include a review of bills with matching dollar amounts, and which also matched all the other criteria you have proposed. Further, we will continue to ensure that there is vigilant monitoring of the post-payment sampling process that we described last year in each of the district offices (see attached draft bulletin). We are making it a National Office imperative that the corrective actions we have devised be fully implemented in the current fiscal year.

OIG's Conclusion

This recommendation remains **unresolved**. Closure is dependent on implementation of OWCP's post-payment sampling process, actions taken, and the results of our review during the 1998 audit.

Supervisory Documentation Approval of Medical Bill

In our FY 1996 audit (OIG Report No. 12-97-005-13-001), we noted that medical bills did not receive adequate review prior to payment.

- *We recommended that the Chief Financial Officer and the Assistant Secretary for Employment Standards ensure that:*
 - *The BPS require a password for the authorizing official's initials.*

OIG resolved this recommendation with closure dependent on review of the implementation of ESA's corrective action. The number of errors revealed from our audit testing during the current year decreased from the prior year. However, we noted during our FY 1997 audit that a documented review of medical bills was not evident on bills paid in the New York office. The authorization field of the BPS contained the initials of an individual no longer employed.

Currently, the BPS will pay a medical bill above the established dollar limit even if the initials used are those of an unauthorized individual. Furthermore, the BPS allows anyone to enter the

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initials of the designated individual because the system does not currently require a password be used in this field.

When hospital bills were received in summary, detailed support for the bill was neither reviewed nor requested. The bills did not contain enough information to determine whether the charges were excessive in rate or the services were not rendered to justify the charges.

The process of reviewing the medical bills, as evidenced by authorizing initials in the BPS, needs to be followed. Not following this procedure could result in payment to medical providers:

- for items or services that were not received by the claimants,
- for items or services that are excessive in amount, or
- for items or services that do not relate to the claimant's accepted condition.

Since our audit disclosed that the New York district office used the authorizing official's initial code of an employee no longer employed by ESA, the status of this recommendation is changed from **resolved and open** to **unresolved**. In order to resolve this recommendation, ESA should have BPS require a password for the authorizing official's initials.

Management's Response

The audit results for FY 1997 revealed a decrease in the number of errors cited in the area of authorizing initials for the various dollar levels within payment types. We agree that the current procedures that we have for ensuring that bills over a certain dollar amount be reviewed by designated persons should be followed. In this regard we will continue emphasizing the importance of those procedures, and encouraging restructuring of the process in the offices with a large bill volume. Your review noted that the New York Office was using the authorizing initials in a way that had the effect of circumventing the procedures. When we were initially advised of the situation we contacted the New York Office to make it clear that those practices were in violation of the procedures and that a corrective action plan would have to be provided to the auditors. Attached is a copy of their corrective action plan that was provided to the OIG auditor on November 13, 1997. On review of the attached memorandum, the New York Office was re-contacted to verify that the appearance of an authorized person's initials on a bill would always represent confirmation that that person had actually reviewed the bill in question. We will be closely monitoring this situation in the current fiscal year to ensure that the corrective action plan is followed. Additionally, when the New York Office has its accountability review this year, this and other fiscal matters will be focused upon.

As noted in our response to the FY 1996 audit, our BPS system does not currently have the capability to enter passwords in this fashion. We are presently designing a replacement system, which will provide more flexibility to assign and change passwords at various levels. That system will be implemented in FY 2000, according to our current plans.

OIG's Conclusion

This recommendation remains **unresolved** pending our review of the New York Office's implementation of corrective action and changes to the BPS system.

Accounts Receivable

In our FY 1996 audit (OIG Report No. 12-97-005-13-001), we noted that accounts receivable balances were inaccurate and overstated.

- *We recommended that the Chief Financial Officer and the Assistant Secretary for Employment Standards ensure that FECA implements the following in regard to the accounts receivable:*
 - *Implement an accounts receivable system that ensures that debts are collected timely or written off in accordance with the Debt Collection Improvement Act of 1996.*

OIG resolved this recommendation since ESA had indicated that Division of Federal Employees' Compensation was in the process of developing procedures and determining what, if any, modifications to its Debt Management System would be needed. However, ESA did not develop procedures or make any modifications to their Debt Management System. We continue to note accounts receivable balances were inaccurate due to posting errors, debts and interest not being compromised, incorrect assessment of interest, and status of debts not timely changed from preliminary to final. The status of this recommendation is changed from **resolved and open** to **unresolved**. In order to resolve this recommendation, ESA should implement a Debt Management System that includes adequate review of the detailed accounts receivable subsidiary ledger for posting errors, correct assessments of interest, and current status of balances.

- *Implement instructions to the district offices' fiscal officers to review accounts receivable balances periodically and to implement the Debt Collection Improvement Act of 1996.*

OIG resolved this recommendation since ESA had indicated that DFEC was in the process of developing procedures and determining what, if any, modifications to its Debt Management System would be needed. However, ESA did not issue instructions to the district offices' fiscal officers in regard to reviewing account balances and implementation of the Debt Collection Improvement Act of 1996. Due to the lack of corrective action, the status of this recommendation is changed from **resolved and open** to **unresolved**. In order to resolve this recommendation, ESA should issue these instructions to the district fiscal officers.

Management's Response

The requirements of the Debt Collection Improvement Act of 1996 have been discussed with the district offices in detail. FEC is in the midst of a pilot program, and has referred a small batch of debts to Financial Management Service (FMS) for cross-servicing. When fully implemented, this will replace our use of private collection agencies for our delinquent debts. It is expected that this pilot should be complete shortly, and that all debts over 180 days old will then be referred to FMS for "cross-servicing" in accordance with the DCIA. A FECA Bulletin outlining the procedural changes necessitated by the DCIA is in draft format and will be promulgated to the field offices without delay. We will provide a copy of the bulletin to the OIG upon release. In addition, our guidance to the field will continue to stress the need to update the accounts receivable system on a timely basis, especially since this could have prevented several of the errors noted by this year's audit.

OIG's Conclusion

This recommendation remains **unresolved**. Closure is dependent on issuance of a FECA Bulletin and implementation of procedures directed at the timely management and the accuracy of account balance's in the accounts receivable system. The actions taken will be reviewed during the 1998 audit.

FECA Actuarial Model

In our FY 1996 audit (OIG Report No. 12-97-005-13-001), we made a recommendation that ESA implement changes suggested by the actuary regarding the FECA actuarial model. FECA implemented the recommended change, including assumptions and mechanical calculations of the model's actuarial liability. This recommendation has been closed. However, the following recommendations regarding documentation of the actuarial model are still pending completion of corrective action.

- ***We recommended that the Chief Financial Officer and the Assistant Secretary for Employment Standards:***
 - ***Create a narrative documentation of the FECA model's system of calculating the liability.***

The recommendation is **resolved and open**. FECA provided detailed narrative descriptions within the model's software; however, a written narrative of the theoretical overview and understanding of the model would enhance the software documentation.

- ***Implement a formal control system that requires a review of any judgmental ad hoc adjustments to the FECA model.***

The recommendation is **resolved and open**. Management had indicated that a formal review system would be developed during the current fiscal year; however, due to the emphasis on changes to the actuarial model, management has indicated the system will be developed during the next fiscal year.

Management's Response

Management has no additional comments.

9. Longshore and Harbor Workers' Compensation Act Special Fund

Current Year Finding and Recommendation

a. Rehabilitation payment process

During our FY 1997 audit of the Longshore and Harbor Workers' Compensation Act (LHWCA) special fund, weaknesses were identified in the internal controls for the reporting and authorization of payments to rehabilitation service providers. The weaknesses identified pertain to the controls between the District Offices' submission of bills and the National office final authorization for payment. Specifically:

- bills submitted for payment to the National Office were not compared to a listing of valid claimants or authorized service providers;
- the total amount of rehabilitation bills submitted by the District Offices were not compared to the total amount of rehabilitation bills paid by the National Office; and
- bills paid were not being compared to the available amounts obligated by the Rehabilitation Specialist.

These control weaknesses within the rehabilitation payment process contributed to the fraudulent payment of more than \$500,000 to fictitious rehabilitation vendors over a 4-year period. Although no system of internal control can fully protect against fraudulent activity, the losses suffered by the Longshore program could have been minimized, if not avoided, if an automated system of controls had been present.

OMB Circular No. A-123, Revised, dated June 21, 1995, entitled Management Accountability and Control, sets forth general management control standards for agency programs and operations, and include the following:

Reasonable Assurance and Safeguards. *“ Management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. Management controls developed for agency programs should be logical, applicable, reasonably complete, and effective and efficient in accomplishing management objectives.”*

OMB Circular No. A-127, Financial Management Systems, prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. Specifically, the Circular requires that *“financial management systems shall include a system of internal controls that ensure . . . resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and disclosed in reports.”*

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Recommendation

1. **We recommend that the Acting Chief Financial Officer and the Assistant Secretary for Employment Standards ensure that ESA strengthen the internal controls surrounding the recording, authorization and payment of rehabilitation services costs. Specifically, ESA should fully automate the rehabilitation payment system and include, at a minimum, the following controls:**
 - **compare bills submitted to a centralized list of eligible claimants and authorized service providers, with adequate controls over the ability to add claimants/vendors to the lists;**
 - **compare the amount of bills submitted by the District Offices to the amount paid by the National Office; and**
 - **design controls to ensure that amounts obligated and accounts payable are timely recorded and accurately reported and that payments do not exceed amounts obligated.**

Management's Response

The procedures in place in the district offices were developed in response to a previous OIG recommendation to establish separation of the functions of vendor authorization and bill approval. Previously, bills were reviewed by the Rehabilitation Specialist (RS) against the previously approved rehabilitation plans.

Under current procedures, a Disbursement Sheet is prepared for each authorized vendor and signed by the RS. The Bill Processor is required to involve a supervisor in the resolution of any bills which exceed or fail to match an authorization. The fact that written procedures are not being followed or that outdated authorizations were found in a particular district office does not reflect the absence of internal controls. The national office maintains a complete record of each original bill, when and to whom it was paid.

We agree that an automated system would increase existing controls, and we are developing such a system. It will provide a secure record of the amounts obligated by the Rehabilitation Specialist in the district office, against which bills submitted for payment can be compared.

The system will permit payment only to authorized payment providers and on behalf of eligible claimants with adequate controls over entry of vendors and claimants. Procedures will be developed to ensure timeliness of entry and payment.

We expect to have the system in place by the end of FY 1998. We welcome continuing review and comment from your office on the system which is being developed, and invite the OIG to review the system specifications and test the application software prior to full implementation.

OIG's Conclusion

Management's response to this recommendation focuses on a previous OIG recommendation to establish separation of duties between the authorization of vendors and the approval of payments to these vendors. This recommendation was made as a minimum effort in the absence of greater internal controls. In the light of recent events, the internal controls surrounding the rehabilitation payment process need to be strengthened.

We agree with management that the proposed corrective actions will increase existing controls. OIG commends the efforts Longshore management has taken so far to provide corrective measures. OIG welcomes management's invitation to review and comment on the development of this system, and will make every effort to provide timely feedback. This recommendation is **resolved and open**. Closure is dependent on the implementation and OIG's review of the automated rehabilitation system.

10. Black Lung Disability Trust Fund

Status of Prior Year Findings and Recommendations

Actuarial Liability

In our FY 1995 audit (OIG Report No. 12-96-007-13-001), we discussed the Black Lung Trust Fund's use of a model to estimate an actuarial liability for benefits which will be paid in future periods. In estimating this liability, management made certain assumptions which have a significant effect on the resulting calculation. Several assumptions used by the Black Lung actuarial model have not been updated or should otherwise be reviewed to determine if changes are necessary. We reviewed these assumptions, and determined that the FY 1995 liability may have been overstated by approximately \$422 million.

- *We recommended that the Chief Financial Officer and the Assistant Secretary for Employment Standards:*
 - *Specifically consider the revisions discussed in this finding.*

This recommendation is **resolved and open**. The actions described by management in developing the June 1997 model appear to be consistent with the actions necessary to improve the reliability of the model. The analysis being performed and the related changes to assumptions should be documented and provided to the OIG actuary for assessment of the rationale and reliability of the revisions made.

On the issue of mortality table updates, management should keep OIG informed of the milestones that are achieved to assure that the revised assumptions can be used for FY 1998.

Closure is dependent on OIG receipt of the documentation of decisions made regarding the new entrants assumption, the age distribution of lives, and the mortality table update.

Management's Response

ESA's analysis of data and testing of model output related to the requested revisions to the model's age distribution, new entrants assumption, and mortality table is ongoing. Documentation will be provided as soon as final decisions are made regarding these actuarial assumptions.

OIG's Conclusion

The analysis performed by our actuary indicates that the model has shown some incremental change since this recommendation was made in FY 1995. Management should continue to move toward implementing the remaining elements of the model (i.e., age distribution, new entrant assumptions, and mortality table) in order to bring this recommendation to closure. Additionally, management should share with OIG the time table planned for incorporating all changes in the model. The recommendation remains **resolved and open**.

Interest on Repayable Advances

In our FY 1995 audit (OIG Report No. 12-96-007-13-001), we determined that the rates of interest charged by the U.S. Treasury on advances to the Black Lung Disability Trust Fund were not in compliance with the *Black Lung Benefits Revenue Act of 1977*, as amended. We noted interest rates based on the rate charged for 15-year obligations. Treasury personnel indicated that they relied on information from the Department in assigning interest rates based on a 15-year maturity period. The current budgetary model used by management does not support the Department's representation to Treasury that liquidation of repayable advances will occur in 15 years. ESA's actuarial projections for the Black Lung Disability Trust Fund indicate that the Fund will not be in a position to repay advances within the next 45 years. Based on the current budgetary model for the Fund, we believe that Treasury's maximum maturity period of 30 years would be more appropriate.

ESA does not have written guidelines for either acquiring debt or establishing parameters for the acquisition of debt. The Department works with the Treasury in establishing interest rates and calculating interest expense, and has a fiduciary interest to ensure that the Trust Fund is assessed the proper interest.

- ***We recommended that the Chief Financial Officer and the Assistant Secretary for Employment Standards, in consultation with Treasury officials:***
 - ***Determine what interest rates should have been assigned to all repayable advances of the Trust Fund in accordance with the Act both before and after the 1981 amendments.***
 - ***Where the actual rate assigned does not agree with the rate determined in recommendation 1, determine whether retroactive correction of the interest assessed is required.***

We believe that Treasury has the inherent authority to make retroactive adjustments to interest rates when rates were originally set incorrectly and that authority is grounded in Federal statutes. Also, we believe that ESA has a responsibility to assure the interest rates being used to calculate annual interest payments are compliant with applicable laws. The rates originally

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assigned by Treasury were influenced by ambiguous facts on repayment projections and a review of these rates is essential. These recommendations remain **unresolved**.

Management's Response

ESA gave full consideration to these recommendations when raised during the FY 1995 audit. ESA reviewed the applicable U.S. Statutes and the Memorandum of Understanding (MOU) between ESA and U.S. Treasury and made the following determination with respect to assignment of interest rates on repayable advances and consistent with past practice:

- a) Statute language states that the Secretary of Treasury will determine the rate of interest applicable to each repayable advance that is made to the BLDTF. Only Treasury has the authority to establish interest rates.*
- b) Statute language states that the rate will be fixed at the time a repayable advance is executed and, according to the MOU, interest will begin to accrue on the repayable advance from the date of advance to the date of repayment.*
- c) Implicit in the statute, clearly stated in the MOU, and confirmed by consistent past practice is the principle and practice that the rate of interest originally determined under statute for a repayable advance will be the rate affixed to the advance for the life of the advance. Furthermore, the original interest rate assigned to a repayable advance is the rate used to assess interest annually on the outstanding debt.*

Accordingly, it is ESA's position that neither the statute nor the MOU allows for recomputation of the original repayable advance interest rate once assigned to an advance; therefore, the second recommendation is not applicable. However; ESA will provide OIG's recommendation's to the responsible Treasury Trust Fund manager, as was done in the past. To date, ESA has received no indications from the responsible statutory official (Secretary of Treasury) that the interest rates determined and assigned by Treasury to repayable BLDTF advances in the past or present are not in accordance with the statute.

All repayable advances have been procured in accordance with written procedures established in the long standing MOU between Treasury and DOL. This MOU was provided for audit documentation during the FY 1995 audit. ESA is in the process of a joint review of the BLDTF MOU to reaffirm that MOU written policies and procedures are current and in consonance with statute and practices. The MOU will be reissued at the conclusion of this joint review.

ESA believes that it has met its fiduciary responsibilities and continues to meet them by following the procedures outlined in the MOU for procurement of repayable advances and participating in the verification of the annual interest expense calculation on outstanding repayable advances.

As indicated in our FY 1995 response to OIG for corrective action plans, ESA stated that no further action was planned on this issue. This remains ESA's position.

OIG's Conclusion

The observation made in this finding is that the Black Lung Disability Trust Fund, already significantly burdened by debt, should take a proactive position to resolve the propriety of interest charges incurred.

In our conversations with Treasury, we were informed that if the Department was able to show that an error occurred when Treasury set interest rates regarding the repayment period, Treasury would make an adjustment to the interest rates. We were able to review actuarial reports and supporting data from 1991 to the current period. Based on these reports and data, the Department was aware that repayable advances could not be repaid in less than 30 years. Therefore, we believe that the Department should inform Treasury that the interest rates on these repayable advances, based on a 15-year term, was set in error, and the rates should be adjusted accordingly. The Department should also determine if information was available prior to 1991 that would indicate that the repayment period should have been based on a 30-year term rather than the 15-year term used by Treasury.

The recommendation remains **unresolved**.

11. Unemployment Trust Fund**Current Year Finding and Recommendation****a. Unemployment Compensation Advisory Council**

During our FY 1997 audit of the Unemployment Trust Fund, we noted that the Advisory Council on Unemployment Compensation (ACUC) required by the Social Security Act has not been reestablished. The function of the ACUC as noted in section 908 of the Social Security Act is to evaluate the unemployment compensation program, including the purpose, goals, counter cyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of state administrative costs, administrative efficiency and any other aspects of the program and to make recommendations for improvement. Management determined that a new Council would not be established because of the on-going analysis of the final report of the prior ACUC that ended January 1996, and the need to determine the focus/direction that a new Council would pursue. However, Section 908 of the Social Security Act makes no provision for delaying the establishment of a new Advisory Council and the issues for which the Council is responsible are significant to the UI program.

Recommendation

- 1. We recommend that the Assistant Secretary for Employment and Training ensure that the Unemployment Compensation Advisory Council is reestablished as required by Section 908 of the Social Security Act.**

Management's Response

Just recently, the DOL Administration finalized it's position on the previous Unemployment Compensation Advisory Council's findings and recommendations. Shortly, we expect to determine the focus and direction of any future council.

OIG's Conclusion

The recommendation is **unresolved** until the Department provides its plan to reestablish the Unemployment Compensation Advisory Council.

Status of Prior Year Findings and Recommendations

Federal Employees Unemployment Compensation

In our FY 1994 audit (OIG Report No. 12-95-004-07-001), we noted that the accounting function for the Federal Employees Compensation (FEC) Account was not sufficiently performed. Several accounting functions were either incorrectly performed, not performed timely, or not performed at all, and there was little or no management oversight of staff activities. As a result, the financial position of the FEC Account was unknown. We made the following recommendations:

- ***We recommended that the Chief Financial Officer ensure that necessary steps are taken to accurately record the financial activity of the FEC Account in a self-balancing manner that is fully integrated with the Department's general ledger system. Such an accounting should include control accounts (with corresponding subsidiary ledgers) for advances to states, expenditures by states, receivables from Federal agencies, and revenues from Federal agencies.***

Management indicates that completion of the UTF/Treasury interface and ETA's Financial Management Reporting System (FMRS), in conjunction with ETA's FEC Account charge back system, will provide an accurate and complete record of FEC Account financial activity. Management is currently working with OCFO staff and anticipates the integration of the two systems by the end of FY 1998. The recommendation is **resolved and open**. Closure is dependent on the completion of the corrective action plan and OIG's review of the FEC system during the FY 1998 financial statement audit.

Management's Response

ETA management concurs and has no further comment.

- ***Ensure that procedures are implemented for routine UIS management review of the FEC Account accounting activities and reconciliation of subsidiary ledgers and control accounts.***

This recommendation is **resolved and open**. Closure is dependent on the completion of the corrective action plan, which should include a summary of management's review of the control/subsidiary reconciliation.

Management's Response

ETA management concurs and has no further comment

12. Accounts Receivable

Status of Prior Year Finding and Recommendation

In our FY 1996 audit (Report No. 12-97-005-13-001), we noted that the Department does not have procedures in place to ensure that agency reported accounts receivable balances are accurate at year end.

Accounts receivable balances were not posted to the DOLAR\$ general ledger on a timely basis at the Mine Safety and Health Administration (MSHA). Incorrect balances were reflected in the general ledger for the Longshore assessment receivables. Incorrect account balances were reflected in the back wage accounts receivable due to incorrect postings, inaccurate subsidiary detail, and inaccuracies in the general ledger control accounts. The following weaknesses were identified with accounts receivable balances in the Office of Workers' Compensation Programs (OWCP): overpayments were not posted correctly, forfeiture overpayments were not recorded correctly, incorrect assessment of interest on debt set aside by the court (restitution debt), third-party settlements were set up as accounts receivable when the claimant's third-party recovery (award) exceeded prior benefit payments made to the claimant, and the accounts receivable system did not timely change "preliminary" accounts receivable to "final accounts receivable."

We made the following recommendation:

- ***We recommended that the Chief Financial Officer provide guidance to agencies on the proper identification, accounting, collection and reporting for accounts receivable ensuring that timely general ledger postings are performed, that sub-ledgers are reconciled to the control accounts, that uncollectible accounts receivable are removed from the year-end accounts receivable balance.***

During our FY 1997 audit, it was noted that the Chief Financial Officer had not yet provided guidance to agencies on the proper identification, accounting, collection and reporting of accounts receivable to ensure that timely general ledger postings were performed, sub-ledgers were reconciled to the control accounts, and uncollectible accounts receivable were removed from the year-end accounts receivable balance. The responsible financial manager indicated that the Chief Financial Officer still intends to issue a policy memorandum addressing the minimum requirements that all agencies should follow in accounting for accounts receivable to ensure accurate year-end accounts receivable balances.

In addition, weaknesses still exist in accounts receivable for back wage and civil monetary penalties. Incorrect account balances were reflected due to incorrect postings, inaccurate subsidiary detail and inaccuracies in the general ledger control accounts. Also, the accounts receivable balance in OWCP continues to be misstated.

Weaknesses noted in MSHA and Longshore were corrected.

This recommendation remains **resolved and open**.

Management's Response

The guidance providing minimum requirements for accounts receivable is in the review and comment process. The estimated completion date is March 31, 1998.

OIG's Conclusion

This recommendation remains **resolved and open**, closure is dependent on receipt and review of the proposed guidance.

13. Trust Fund Administrative Assessments

Status of Prior Year Finding and Recommendation

In our FY 1992 audit (OIG Report No. 12-93-008-07-001), we made the following recommendation to improve internal controls related to administrative assessments of the Unemployment Trust Fund:

- *We recommended that the Chief Financial Officer ensure that ETA determines what supporting data is necessary to document the administrative charges to the UTF and evaluate their reasonableness.*

Management responded that the OCFO has issued instructions for tracking trust fund administrative expenditures, and that the instructions have been implemented beginning with the FY 1997 First Quarter Financial Review. Some of the agencies are having problems implementing these instructions, therefore, this recommendation remains **resolved and open**. Closure is dependent on all agencies properly implementing the instructions and OIG's verification of such action.

Management's Response

Management has no additional comments.

14. Working Capital Fund Cost Allocations

Status of Prior Year Finding and Recommendation

In our FY 1992 audit (OIG Report No. 12-93-008-07-001), we made the following recommendation for improving the operations of the Working Capital Fund:

- *A strategy should be developed for allocating DOL Academy costs based on usage of the Academy's training services and ensuring cost recoveries which are based on unit pricing of goods and services reflect the current costs to the WCF for providing such service.*

In prior year audits, OIG emphasized the importance of allocating DOL Academy costs based on usage and ensuring cost recoveries reflect the actual costs for providing these services.

OASAM's Human Resource Center (HRC) undertook an extensive effort to restructure its training program in FY 1997 in order to meet the goals established by the OIG in its prior year audits. Because FY 1997 was a transitional year, a modified cost recovery system for the

Training and Development Center (TDC) was implemented for this year. In addition, the HRC has worked closely with DOL agencies to develop a strategy which will fully meet the recommendations of the OIG in FY 1998. This strategy is anticipated to be implemented the beginning of FY 1998.

This recommendation is **resolved and open**. Closure is dependent on a thorough review of the new cost recovery strategy in our FY 1998 DOL consolidated audit.

Management's Response

Management has no additional comments.

15. Performance Measures

Status of Prior Year Finding and Recommendation

In our FY 1992 audit (OIG Report No. 12-93-008-07-001), we made the following recommendation to improve controls over the existence assertion for reported performance measures:

- ***The Chief Financial Officer should ensure that all material weaknesses identified in individual agency performance measures audit reports are addressed by the agencies to ensure the integrity and accuracy of information supporting program measurements.***

The weaknesses reported for Job Corps, OSHA and PWBA, and one of two for UIS (availability of documentation) have been corrected. The status of the remaining weakness reported for UIS (verification process) is as follows:

Verification Process - UIS

UIS has developed a more comprehensive process for ensuring that SESAs fairly report accounting and statistical data. UIS has developed a system to ensure the accuracy of the data being reported. The UIS verification process is being piloted in three states and UI is planning full implementation by January 2000.

In summary, four of the five weaknesses noted have been corrected, and ETA has taken action to eliminate the remaining weakness. Therefore, the recommendation remains **resolved and open**. Closure is dependent on completion of the UIS verification process and an OIG assessment of the impact of these changes on the data being reported.

Management's Response

ETA management concurs and has no further comment.